Discrimination in Ontario's Rental Housing Market: The Role of Minimum Income Criteria

A Report by

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Background Papers

Chapters three and four of this report are drawn from two background research papers produced as part of this main report:

1. *How Households Obtain Resources to Meet their Needs: The Shifting Mix of Cash and Non-Cash Sources*, by J. David Hulchanski and Joseph H. Michalski.
2. *The Use of Housing Expenditure-to-Income Ratios: Origins, Evolution and Implications*, by J. David Hulchanski.

A Note on Usage: *"rule of thumb"*

This paper is about the use of a housing "rule of thumb." It is thus difficult to avoid using the term and awkward to always put it in quotation marks in a paper which examines its history. The *Dictionary of Bias-Free Usage* (Maggio, 1991:236) notes that use of "rule of thumb" is considered offensive due to its likely origin in English common law which permitted a man to chastise his wife with a switch 'no thicker than a thumb.' It is perhaps best for the housing sector to begin referring to it as simply an *income measure* or, to be even more precise, a *housing expenditure-to-income ratio.*

On "simple generalizations and rules-of-thumb for calculating a family's capacity to pay for housing"

"According to a commonly accepted rule-of-thumb a family can afford to pay one-fifth (20 per cent) of its income for housing." (p.73)

"The 1941 census showed that low-income families in all urban areas had to pay a rent far beyond their theoretical capacity and even middle-income families paid considerably more than a fifth of their income. Furthermore it appeared that rent levels in the Toronto area were particularly high in relation to income." (p.75)

"It must be concluded that the rule-of-thumb concerning rent capacity has arisen from a generalization that over-simplifies the facts." (p.75)

"We have attempted here to appraise the real validity of the commonly accepted formula for rent capacity. This formula was never, of course, more than a conventional generalization and we have seen that the lower income families have habitually had to pay much more rent than the formula prescribed." (p.85)

"It must be confessed that the attempt to reduce family needs to a classified budget is a denial of the manifold varieties of human nature. While the desire for security persuades us to accept the conventional standards of our community, the equally vigorous urge for freedom of individual expression makes us all resist such uniformities. The idiosyncrasies, vanities, pleasures, and generosities that make life worth living cannot be accounted for in scientific budgets and economic formulae. But even this cold examination of minimum family needs has shown the many variable factors that must enter into household plans; it is clear that simple generalizations and rules-of-thumb for calculating a family's capacity to pay for housing may be quite misleading." (pp.85-86)

-- **Humphrey Carver, *Houses for Canadians*, University of Toronto Press, 1948.**

(professor of housing policy at the University of Toronto in the late 1940s, and a housing researcher with Canada Mortgage and Housing Corporation's national office until retirement in the 1970s)

1. The Issue: Use of Minimum Income Criteria in Tenant Selection

> *"When asked 'are there income requirements for your units,' nineteen (70%) reported that there are, six reported that there are not any (22%), and two did not respond. Of the nineteen corporations which do have income requirements, fourteen answered the follow-up question: 'What is the rent-to-income ratio that you require?' All but two are between 25% and 33%. The other two are 35% and 40%. Both the mean (the average) and the median rent to income ratio is 31%."*
>
> -- J. David Hulchanski and Eric Weir (1992b:2).

Many Ontario landlords in the public, non-profit and private sectors use household income as criteria in selecting tenants. *Maximum* and *minimum* income criteria are being used.

1.1 *Maximum* and *Minimum* Income Criteria: The Difference

In the public and non-profit sectors *maximum* income criteria are used in the process of defining eligibility for rent geared-to-income housing subsidies, often referred to as "RGI subsidies." The aim is to exclude higher income households so as to target a particular type of housing subsidy to households in greatest need. Even the term, "rent geared-to-income" makes it clear that income criteria are being applied. They are being used in two ways: to exclude households above a certain income level and to define the amount of subsidy eligible households will receive. The assumption is that the use of maximum income criteria is an objective, *valid* and *reliable* measure of housing need. Those in need of housing assistance are by definition eligible, and those not in need are by definition excluded.

The use of maximum income criteria as part of the process of defining eligibility and subsidy levels for government programs has a long and relatively undisputed history. Debate takes place over the nature of the measure and the specific cut-off points used in defining eligibility and subsidy levels. There is no reasonable grounds for dispute in the cases where public sector *needs-based* subsidy programs are involved, rather than *universal* subsidy programs. In needs-based subsidy programs eligibility criteria defining the need are required and a formula based in part on household income is often appropriate.

The use of *minimum* income criteria in the private rental housing market, on the other hand, is subject to a great deal of controversy -- even to the extent of serious claims that it is a discriminatory practice. In 1993, for example, the Ontario Human Rights Commission estimated that active complaints related to discrimination in housing represent about eight percent of the Commission's total caseload. Many of the housing complaints are connected to the use of minimum income criteria. Landlords are currently using minimum income criteria in evaluating prospective tenants. Does this use of minimum income criteria constitute an objective, *valid* and *reliable* measure of whether a landlord will be able to collect rent from a prospective tenant?

Validity and *reliability* have very specific meanings in social science research. They are tests of the trustworthiness of observational techniques and measures to generate *objective knowledge*, i.e., knowledge that can be confirmed by multiple, independent, "non-partisan" (or "neutral") sources. Validity refers to tests of the extent to which measurement instruments adequately and accurately reflect the meaning of the concepts employed. Does the technique allow one to measure what one claims to be measuring, or does one err and miss the mark? Reliability refers to tests of the consistency of a measure in yielding dependable, stable, consistent, and predictable results in repeated applications and under similar circumstances. Many researchers view reliability as a precondition necessary to establish validity (Lincoln and Guba, 1985:292). Appendix A provides a more detailed discussion of the validity and reliability tests.

1.2 Minimum Income Tests in Consumer Markets

The use of minimum income criteria, in contrast to maximum income criteria, presents a number of difficulties for researchers. Even though it is apparently a widespread practice today, the history of and the rationale for the use of minimum income criteria in the residential rental market is difficult to determine. There is no body of literature debating the merits of the practice of using minimum income criteria in Ontario and no systematic analyses examining and defining alternative options for determining the best income measure or measures to use, if this were indeed possible and desirable. In contrast, in the public sector's use of maximum income criteria and income cut-offs for assessing housing need and determining eligibility for certain needs-based subsidy programs, there has been a great deal of debate and analysis. The use of maximum income criteria is carried out openly as a discriminatory activity -- the objective of the income criteria is to discriminate against higher income households and discriminate in favour of lower income households -- so as to better target resources to those who need them. As discussed in Chapter 2 this is not a negative type of discrimination. It is a discriminatory measure designed to assist rather than harm groups protected by human rights legislation.

Another reason why there is little research on the use of minimum income criteria by entrepreneurs is that such a practice is quite unusual and presents quite an anomaly in terms of standard marketplace dynamics, procedures and entrepreneurial practice. It is rare to find a consumer good or service in which the entrepreneur first applies an income test to determine affordability (a test of his or her own choosing) for the purposes of refusing to sell to the prospective customer if he or she fails the affordability test. For most entrepreneurs it is sufficient to have a prospective customer present the required amount of money for the good or service. Renters in Ontario must, like customers for any other good or service, present their money but, more than this, they must present two months rent in advance. Entrepreneurs in Ontario's rental market have the right, laid out in provincial legislation, to require double the amount of the monthly cost and to require that it be paid in advance of actual occupancy.

1.3 The Nature of the Issue: Differential Treatment of Groups on the Basis of a Rule of Thumb

It is not clear when the practice of using minimum income criteria in Ontario's residential rental market began and when its use became so widespread. *At its most fundamental level, the issue of using minimum income criteria in the private rental market (and in the "market rent" units in non-profit housing) is an issue related to the differential treatment of groups in the marketplace using a rule of thumb measure based on the level of income, specifically a lower than average level of income.* Does having a lower than average level of income make the household more or less *reliable* in terms of paying rent than someone with a higher than average level of income? Where is the evidence for this? Is a lower than average level of income a valid and reliable indicator of a particular household's *ability* to pay? Is a lower than average level of income a valid and reliable indicator of a particular household's *willingness* to pay?

The use by entrepreneurs of a minimum income test on potential customers in a marketplace for one of the basic human necessities is quite rightly controversial. It is controversial in our free society because it relates to whether it is an acceptable practice for the private use of a privately selected rule of thumb to be the basis for making distinctions between groups of people. Individual households are not being assessed on the basis of their individual characteristics but on their group characteristic -- as part of a very large group with the aggregate characteristic of having a lower than average level of cash income. How is this different from using a stereotype?

What makes the use of minimum income rule of thumb criteria so significant for public policy consideration and review are:

- *the personal characteristics of the individuals and groups*, generally individuals from disadvantaged groups protected by human rights legislation;

- *the nature of the measure*, the use of a rule of thumb based on the average of group characteristics, rather than a measure of the individual attributes of the individual applicant, and

- *the nature of the market item involved*, access to housing, a fundamental necessity for human well-being, in a marketplace where there are few other options for applicants.

All households make choices as to how to allocate not only their *cash* income but also their "total household resources," of which cash from the market is but one important part. In the case of the application of minimum income criteria in the decision to rent, however, an authority outside the household is imposing its determination of what it considers to be an "appropriate" budget allocation of the cash income of a particular household. All households with higher than average cash incomes can, of course, easily meet the minimum income criteria. The rule of thumb measure is not being applied to them. All households with higher than average incomes are, by definition, automatically exempt from that potential constraint on exercising their freedom of choice in the marketplace. They are also exempt from the potential constraint on their freedom of choice in deciding for themselves what is an appropriate household budget allocation of their cash resources. All households who fail to meet the minimum income criteria are automatically denied the ability to exercise their freedom of choice in the marketplace and their freedom of choice in allocating the cash portion of their total household resources. This means that the use of minimum income criteria had better be a defensible measure on the grounds that it is an objective, valid and reliable measure of the ability to pay (of housing affordability). If not, then the use of the measure perpetuates and exacerbates the disadvantaged position of already disadvantaged groups in society.

Differential treatment of groups on the basis of group characteristics which are irrelevant to the situation is the starting point for the definition of the type of discrimination human rights charters and codes condemn and seek to eliminate. A measure of a prospective tenant's ability and willingness to pay rent based on group characteristics can simply be irrelevant, as in the case of skin colour. A measure of a tenant's ability and willingness to pay rent can *appear* to be relevant, and even be widely *assumed* to be relevant, yet, under closer scrutiny, can prove to be irrelevant. In this case, for example, the minimum income criteria asks an economic question (about income) which indeed makes it appear to be relevant to the economic question about ability/willingness to pay rent.

2. Defining Terms: Discrimination, Prejudice, and Statistical Discrimination

"These findings ... indicate that most discriminatory acts are undertaken without clear motivations other than generalized habit; those engaging in such habitual responses may simply have few personal or contextual characteristics in common. What does seem clear, however, is that agents' stereotyped beliefs about the characteristics, beliefs, or preferences of others form the dominant cause of discrimination in housing transactions."

-- George C. Galster (1992:654).

2.1 Discrimination

To discriminate is not necessarily bad. It is often a positive activity leading to desirable ends. People like to be "discriminating shoppers," for example, by observing differences in quality and price, and making distinctions based on these observations. To the extent that the shopper is successful in observing and measuring differences accurately, he or she succeeds as a discriminating shopper.

The *Oxford English Dictionary* provides the following three part definition of the word "discriminate."

(1) The action of discriminating; the perceiving, noting, or making a distinction (made with the mind, or in action).

(2) Something that discriminates or distinguishes; a distinction, difference (existing in or between things); a distinguishing mark or characteristic.

(3) The faculty of discriminating; the power of observing differences accurately, or of making exact distinctions; discernment. (*OED*, 2nd edition, p.748)

None of this implies anything negative or socially unacceptable, let alone illegal. Landlords, public and private, have a desire to be discriminating in their decisions about tenant selection. A review of the "how-to" guides to landlording certainly demonstrates that authors, themselves landlords, know that screening tenants on certain grounds constitutes prohibited discrimination. However, they emphasize that, as property owners, they retain the right to discriminate on grounds not specified in legislation. In the mirror image of prospective tenants' housing searches, they cast themselves as "discriminating shoppers," hunting for desirable tenants (see, for example, McNeill, 1990:18).

There is, of course, the negative and socially undesirable types of discrimination which human rights declarations, constitutional charters of rights, and human rights legislation all condemn and seek to eliminate. Socially responsible individuals, including landlords, who desire to act ethically and legally in their daily decisions and professional practice, seek to avoid engaging in this kind of discrimination. What is the difference? In social science research the negative, socially undesirable and often illegal type of discrimination is said to occur when the word is used to denote the *unfavourable differential treatment of groups* or categories of persons *on irrelevant grounds* -- grounds which have little or no relation to the actual behaviour of the persons so treated.

Landlords-turned-authors construe income criteria as a legitimate form of discrimination. For instance, one such author asserts:

> "You may still be discriminating about the tenant's ability to pay, willingness to pay, pets, waterbeds, vehicles, recommendations, number of co-tenants (even though you may not discriminate against children in some areas, you may still limit the number of people you will allow to occupy the premises), intelligence, attitude, ... smoking or drinking habits, permanence, cleanliness, and the like. Those should be sufficient criteria for tenant selection, shouldn't they?" (Robinson, 1980:40)

The same author then adds:

> "Don't despair about discrimination laws...You may not discriminate arbitrarily. That's all. You should always be able to find a valid legal reason not to rent to those who are obviously objectionable." (Robinson, 1980, p.40-41)

The term discrimination is variously defined in the literature to mean: treating a person differently for irrelevant reasons; the unequal treatment of equals; whether deliberate or unintentional, any action that has the effect of limiting opportunities because of sex, race, or religion -- that is, by the use of any irrelevant criterion. This form of discrimination against one group *inevitably* benefits another group. In summary, according to one authority:

> "In its most usual contemporary sense, in both ordinary discourse and the social sciences, it denotes the *unfavourable* treatment of categories of persons on arbitrary grounds. In this usage it refers to a process or form of social control which serves to maintain social distance between two or more categories or groups by means of a set of practices more or less institutionalized and rationalized. The practices employed involve the arbitrary attribution of inferiority on grounds which have little to do with the actual behaviour of those discriminated against, and are frequently in conflict with accepted ideas of justice and fairness." (Moore, 1964:203)

These practices may include segregation and may be seen as the objective parallel of prejudice, as acts growing out of prejudiced attitudes.

2.2 Prejudice

What do we mean by *prejudice* and *prejudiced attitudes*? Prejudice is a negative, unfavourable attitude toward a group or its individual members. It is characterized by stereotyped beliefs which are held without reasoned support. Prejudicial attitudes often result from processes within the bearer of the attitude rather than from reality testing of the attributes of the group in question. Most uses of the term in the social sciences go beyond this definition in stipulating that the content of the attitude must violate important social norms or values generally accepted in the culture (Jahoda, 1964:527-528).

It is prejudicial attitudes about certain groups that lead to unfavourable discrimination against these groups and favourable treatment of others. As a form of prejudgment, prejudicial attitudes provide an answer about a group's characteristics supplied by intuition and ancestral/cultural consensus of opinion. The prejudiced individual lacks either the time or knowledge to arrive at a decision based on evidence or reason. Prejudice prevents adequate reality testing of the qualities of the group against whom the attitude is directed. It is an attitude based on faulty and inflexible generalization fulfilling a specific irrational function for its bearer.

How does prejudice affect the selection of tenants? While landlords can and do discriminate among prospective tenants, they cannot do so on the following grounds:

(1) on grounds which have the effect, whether deliberate or unintentional, of limiting opportunities because of some irrelevant characteristic of the group the prospective tenant belongs to (e.g., criteria such as the gender, race or religion of the prospective tenant); and

(2) on grounds relying on prejudiced attitudes and stereotypes about the characteristics of the group the prospective tenant belongs to, that is, on the basis of attitudes which have not been adequately tested against reality.

The first ground is rather clear because it is so blunt. For example, a landlord does not like black people as a group and, as a result, any black household applying for an apartment is automatically turned down. This is discrimination based on criteria irrelevant to whether the prospective household will be a good tenant.

The second ground is essentially the same. It is still discrimination. The case can be less clear when the criteria in question are not yet, at least, socially recognized and legally defined as prohibited grounds for discrimination. The use of minimum income criteria in the rental housing market is such a case. The argument in this paper, based on the review of the evidence of how households actually manage to obtain their basic needs, and based on a review of the origins, evolution and contemporary use of housing expenditure-to-income rules of thumb, is that the use of minimum income criteria constitutes discrimination. Whether intended or not, group identity on the basis of lower

than average level of income results in discrimination against many of the households composed of members of groups protected by human rights legislation. It constitutes an untested stereotype about the characteristics of a group: *lower than average income households*. Faulty assumptions about the ability to pay rent on time have been made and applied to all individuals who are members of households with lower than average levels of income. The literature on discrimination identifies this category or type of discrimination as being based on "statistical discrimination."

2.3 Statistical Discrimination

Statistical discrimination is a specific form of discrimination which receives special attention in literature on economic and marketplace discrimination, including the large body of literature on housing discrimination.

Economist George Galster (1992), in his recent extensive review of the literature on housing market discrimination, notes that a considerable amount of theoretical work has been carried out in developing models which seek to explain why agents and landlords might discriminate in housing markets (Becker, 1959; Yinger, 1978, 1979, 1981, 1986; Galster, 1990a, 1990b; Newburger, 1989; Galster and Constantine, 1991). He divides these theories into a number of variants, four of which relate to the rental sector (the others to the ownership market): landlord prejudice, customer prejudice, expected discrimination, and inferior tenant (1992:653).

(1) *Landlord prejudice*: Landlords have a personal animus and treat members of a protected group poorly, even at an economic cost to themselves.

(2) *Customer prejudice*: Landlords exclude prospective tenants of a different group if their current tenants are prejudiced against that group.

(3) *Expected discrimination*: Landlords exclude applicants who are members of a protected class from a neighbourhood or building because they believe that these applicants will be discriminated against by other households or institutions.

(4) *Inferior tenant*: Landlords exclude tenants from certain groups because of statistical discrimination; their experience indicates that group identity correlates with unstable rent payments, poor maintenance, severe damage, disruptive behaviours, etc.

The fourth, the "inferior tenant" theory, is most pertinent to the use of minimum income criteria. Some landlords refuse to rent to certain tenants from certain groups because of *statistical discrimination* -- the belief that group identity correlates with being a bad tenant. No doubt there are "inferior tenants." The issue is whether all members of a particular group or groups should be excluded on the basis of some members of the group being presumed to be or known to be "inferior" tenants. The "inferior" designation is based on various prejudicial attitudes. The device used to exclude the "inferior" is minimum income criteria -- a presumption that statistical correlation is valid and that it applies to everyone in the group. It is difficult to determine the extent to which any statistics were *ever* systematically collected and analyzed, not that this is the issue. Research on housing discrimination, Galster points out, indicates that the dominant cause of housing discrimination is stereotyped beliefs about the inferiority of certain groups (1992:654).

It is not difficult to find examples of landlords admitting to such beliefs.

- "The landlords say those on assistance, particularly single parents, often wreck apartments and seldom pay their rent on time, if at all." (Ian Mulgrew, "Troublesome tenants identified with landlords' computer bank," *Globe and Mail*, 4 Oct. 1980.)

- "'We have a growing movement among landlords not to rent to welfare recipients,' says Louise Roy, president of a South Shore-based landlords' association that pressured [Province of Quebec] Income Security Minister André Bourbeau to form the Liberal committee."
  "Roy's association, la Corporation Immobilière Mérite, is currently conducting a survey of its members to find out how many welfare recipients they rent to, and how many of them don't pay their rent on time."
  "Roy said the survey does not ask whether other types of tenants don't pay on time. 'We presume that the others are workers and can pay.'" (Alex Roslin, "No babies, thanks," *Montreal Mirror*, 1-8 April, 1993.)

- "A Vancouver company that owns hundreds of furnished suites in the Lower Mainland and Greater Victoria has instructed its managers to demand larger security deposits from the unemployed, welfare recipients and transients.
"Greenbrier Holdings Ltd. is seeking a 'better quality of tenant,' according to an internal document leaked to *The Sun*." (Nancy Knickerbocker, "Landlord criticized for demanding furniture deposit from unemployed," *Vancouver Sun*, 24 Aug. 1983.)

Statistical discrimination is a term used to describe the judgement of individuals based on averages instead of individual characteristics. Some alleged propensity of a group is applied to all members of that group. Economist Lester Thurow has written the following about statistical discrimination in the marketplace.

> "Although most types of discrimination (racial, sexual, religious, etc.) affect specific groups, statistical discrimination is a phenomenon that affects everyone. It occurs whenever an individual is judged on the basis of average characteristics of the group or groups, to which he or she belongs rather than upon his or her own personal characteristics. The judgements are correct, factual, and objective in the sense that the group actually has the characteristics that are ascribed to it, but the judgements are incorrect with respect to many individuals within the group." (Thurow, 1975:172)

It may be demonstrated that a higher percentage of households in receipt of social assistance, for example, has trouble paying their rent on time than some other group of households. The rejection of all households in receipt of social assistance constitutes statistical discrimination. The individual household is being judged, not on its own merits, but on a socially constructed group identity. This is a prejudicial attitude, a prejudgment, not a valid and reliable measure of the characteristics of the individual household. Statistical discrimination is simply a specific form of discrimination. According to Thurow: "Whenever statistical discrimination occurs, the linkage between individual characteristics and individual earnings [or other opportunities, such as renting a specific apartment] is broken.... Groups are objectively treated; individuals are not objectively treated" (1975:174).

The "objective" treatment of the group refers to the identification of certain objective and valid statistical facts about the group. If, in a hypothetical example, studies found that young (18-24 years of age) black male tenants damaged apartments eight percent of the time and young white male tenants did so four percent of the time, excluding all young black males because the group presents a higher risk -- double the risk -- constitutes statistical discrimination. When statistical discrimination is practised against groups who are already disadvantaged, it makes it even more difficult for members of that group to improve their status.

> "Statistical discrimination serves as a powerful conservative force. If a group starts with inferior background characteristics (for whatever reason), statistical discrimination will retard the group's acquisition of better background characteristics and will prevent individuals from escaping from discrimination on an individual basis." (Thurow, 1975:181)

This is why the application of measures based on the "average" characteristics of a group is so damaging when applied to an individual, and why it is not surprising to find such individuals claiming they are targets of discrimination. Discrimination in one market, such as housing, cannot be separated from discrimination in other markets, such as the job market. This points to the interlocking nature of different types of discrimination. Each type makes it easier to enforce other types. In the labour market, all forms of discrimination lead to lower incomes. No matter what type of discrimination is employed it is reinforced by the other types. "They exist in a system of mutual support" (Thurow, 1975:170). (See Appendix A for a brief discussion of the use and abuse of statistical averages in research and public policy.)

The use of minimum income criteria is a very simple, convenient, seemingly valid and easy to use rule of thumb for screening out individuals who happen to belong to groups identified as "inferior tenants" -- groups defined as such based on stereotypes and prejudice. It is more difficult and time consuming to assess each applicant on its individual merit. A rule of thumb applied to all the individual members of certain groups makes the process easier. The use of minimum income criteria in the rental housing market constitutes the use of an easy to use statistical measure to discriminate against many of the groups protected by human rights legislation. They are protected by

legislation because many in society already consider them "inferior" people, not just "inferior" tenants. Black people, women, and single mothers, for example, earn proportionately less because of their colour, or gender or marital status. In part this is due to discrimination in the labour market. Taking average group characteristics and using it against individuals in the rental housing market is simply adding to the disadvantaged situation of these groups. Those who use minimum income criteria need not intend to add to the disadvantaged status of these groups or to circumvent human rights legislation. They do so nevertheless. According to Thurow and Galster:

> "In the end a robust framework of discrimination can exist even though those who are not prejudiced might be in a large numerical majority. Discrimination exists regardless of personal tastes for discrimination." (Thurow, 1975:181)

> "... discrimination must be seen as embedded in a web of interlocking, mutually supportive causal connections wherein proximate 'consequences' of discrimination lead to still other negative effects, which ultimately feed back to intensify discrimination itself." (Galster, 1992:662-663)

3. Question #1: What is "Income"?

> *"As many hours are invested each week in producing goods and services in the Domestic Economy as in the Official Economy."*
>
> -- Richard Rose (1985:132).

> *"Of much bigger magnitude than excluded market transactions, though, is the value of nonmarket output. This includes, in particular, a vast amount of household activity. The work of paid domestic servants is counted in the official accounts; that of housewives or other unpaid workers in the home is not. The preparation of meals in restaurants and the washing of clothes in laundries or laundramats are included; home-cooked meals and the services of user-owned washers and dryers are not. And the transportation services of taxis, buses, and rented cars are included while those of the family car are not."*
>
> -- Robert Eisner (1989:3)

The housing expenditure-to-income ratio relies on a definition of "income." What is household "income"? What is meant by "income" in minimum income criteria? The ratio fails to be a valid measure of housing affordability because it relies on the easiest to measure income, money income. It ignores other sources of support, both cash and non-cash, by which households meet their needs.

In market-based economies, securing adequate cash to obtain necessities in the marketplace is the way in which theoretical and practical discussions frame the issue of how households ensure their survival and well-being. The lack of a cash income or a low cash income relative to other households is the predominant method by which the public and private sectors define "affordability" measures -- various rules of thumb. The cash income requirement has come to be seen as the method by which a household meets its needs even though it is generally recognized that income, as a concept, is much more

complex than just the sum of cash income. Theory and day-to-day practice often require the use of simplifying assumptions. The question must always be asked: how valid and reliable are these simplifying assumptions?

Since households do not exist in isolation from the broader forms of societal organization, formal economic relations in the cash-based marketplace are but one method for meeting needs. While the reliance on markets may be quite extensive in western, advanced-industrial economies such as in Canada, households by no means rely exclusively upon the marketplace to secure the goods and services they need. The public and private sectors must recognize that a household's *total resources* consist of a range of sources and strategies for meeting needs. Rather than the relatively simple concept of "household income" and the "household budget," the concept of "total household resources" offers a more accurate method for describing and assessing the ability of a household to obtain life's necessities.

The question of *what constitutes income* extends well beyond the very minor question of whether gross or net income should be used in the income part of the housing expenditure-to-income ratio. It is addressed in detail in one of the background papers written as part of this report:

> *How Households Obtain Resources to Meet their Needs:*
> *The Shifting Mix of Cash and Non-Cash Sources,*
> Background Paper #1, by J. David Hulchanski and Joseph H. Michalski.

A summary of the analysis from Background Paper #1 is provided here. It is because the issue of what constitutes income is so important that a much more thorough examination of the theory and evidence is presented in the separate paper.

In the case of *household income* it is the *money* income, the *cash* resources which are easiest to measure and, as a result, the easiest to use as a convenient rule of thumb to measure housing affordability (CMHC, 1991; Gyourko and Linneman, 1993). This convenient measure, however, goes much too far in simplifying reality to the point that it does not reflect the reality of most households. This paper argues that minimum income criteria fail to meet the tests of validity and reliability for a number of reasons.

The inadequacy of the measure of the "income" used in the "income criteria" test is by itself solid ground for rejecting its use. The use of the very narrow definition of income as cash income from the formal market economy leads by definition to discrimination against households with limited cash income resources from the formal market economy, such as the unemployed and those in low-paying jobs. It favours those who have a great deal of cash income from this source.

Theory and empirical evidence both point to the fact that households meet their basic needs though a variety of methods. The paper *How Households Obtain Resources to Meet their Needs* outlines the five economic spheres by which households can obtain resources (cash and non-cash) for meeting their needs:

(1) *the domestic economy*, internal to the household;
(2) *the informal economy*, the extended family and close acquaintances;
(3) *the social economy*, neighbourhood and community-based groups and agencies;
(4) *the market economy*, the formal marketplace; and
(5) *the state economy*, government.

This typology is drawn from the vast body of theory and empirical evidence of how people meet their needs (cf. Offe and Heinze, 1992). The empirical evidence related to each of these economic spheres is reviewed in part three of Background Paper #1.

The empirical evidence indicates that households survive and even thrive in a complex intermingling of different economic spheres with their attendant webs of social relationships. When households find themselves in temporary situations of financial duress, most have other options for substituting certain types of self-provisioning and non-cash exchanges, especially to ensure that their basic needs are met (Uehara, 1990; Wellman, 1992). Indeed, the one general proposition that seems to emerge from the many studies of sources of social and economic support may be stated as follows: *net of market earnings (wages, interest, investments, etc.) and government transfer payments, households rely upon an extensive network of socioeconomic relations to ensure that their basic needs are met.*

Research on how households obtain their basic needs indicates that they may rely on a substantial amount of self-provisioning and upon informal networks of extended kinship, friendships, neighbours, and acquaintances (e.g., Rose, 1985; Felt & Sinclair, 1992; Martin & Martin, 1985). In addition, resources are often obtained through linkages established in the social economy and nurtured in civil society, including charitable organizations, community groups, collectives, and co-operatives (Quarter, 1992). For the most part the exchanges in these non-market, non-governmental spheres are not formally recorded, although some segments of the social economy tend to be somewhat more formalized.

A more inclusive definition of income must be based on an assessment of how households *actually* meet their needs. Recognizing the full range of methods by which households meet their needs requires keeping in mind the severe limitations of the conventional measure of affordability based on the narrow definition of income. It also requires the development of improved measures. The proposed concept, *total household resources*, represents the total amount of *cash*, of *goods*, and of *services* received in a given period of time (e.g., monthly). It is a much better starting point for defining and measuring need and affordability.

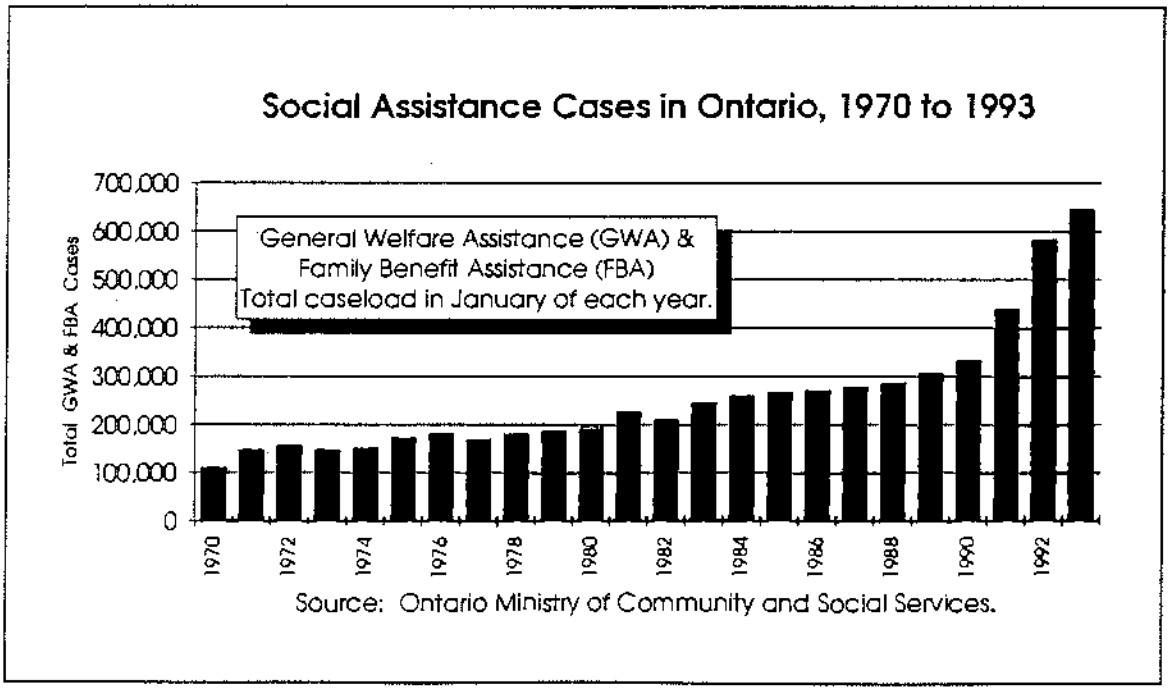
The key policy and program implication of the fact that households obtain their basic needs by shifting between the use of cash and non-cash resources and by drawing on all the economic spheres to which they have access is that simple rules of thumb about cash income are not valid measures of ability to pay. Furthermore, the use of such rules of thumb benefits higher income households which have significant cash resources and thereby easily satisfy the criteria currently in use. By making erroneous assumptions about a household's ability to pay, such rules of thumb harm the general well-being of lower income households by excluding them from certain options.

The interesting point about residential rent is that it is the one basic need households have which requires cash. Rent is the largest single *cash* outlay for most households which *must* be met each month. Non-cash resources can only rarely be used in paying the rent, such as in the case of an agreement to serve as the building's superintendent or carry out some share of maintenance in lieu of some or all of the monthly rent payment. Virtually all the other needs which a household must meet can

either be postponed or met in other ways from the other support networks (any of the five economies). Most households can shift between using cash to obtain certain goods and services, if the need arises, to relying on their networks of extended kinship, friendships, neighbours, and acquaintances to meet their needs, including borrowing money from someone in this extended network to help pay the rent.

The inadequacy of the conventional measure of income as cash income, combined by the recognition of the reality of how households actually meet their needs, explains why many more households do not default on their rent payments. In just five years, from 1988 to 1993, the number of households in receipt of social assistance in Ontario, for example, climbed from 287,000 to 645,000 (see Figure 3-1). This means that in 1993 about 17% of Ontario's 3.65 million households were receiving social assistance, a dramatic increase over the past (it was 6.6% of Ontario households in 1971; 6.7% in 1976; 7.6% in 1981; and 8.4% in 1986). Ontario's unemployment rate doubled between 1988 and 1993, from 5% to over 10%. Many households, therefore, renters and owners, are facing severe financial problems during this prolonged serious recession, yet most do not default on their rents or mortgages for the reasons explained here.

Figure 3-1



Furthermore, this inadequacy of the conventional measure of income contributes to the explanation of why, on a continual basis, for as long as such data has been collected, a substantial number of Canadian renter households have managed to spend a *huge* percentage of their cash incomes on rent. Appendix B provides data on rent as a percentage of household income for several points in time, starting in the 1930s. The 1991 census reports that one third of Ontario's renter households, or 430,000 out of the 1.3 million renter households, paid more than 30% of the household income on rent (see Table 3-1). Fifteen percent (195,000 rent households) paid more than 50% of their income on rent. How can they manage to do this if the only resource these households had to meet their needs was their cash income? They would either starve or be evicted. If the housing expenditure-to-income rule of thumb, based as it is on 30% or 35% of income, is a valid and reliable measure of housing affordability and ability to pay rent, why is Ontario not facing a crisis of historic proportions -- close to 200,000 households facing eviction for inability to pay rent (i.e., the 195,000 households paying over 50% of their income of housing)? Close to a third of all homeowners with mortgages are paying over 30%, with 10% (115,600) of these households paying over 50%. Why are these 115,000 owners not defaulting on their mortgage? How do they manage to "violate" the rule?

Table 3-1

Percentage of Household Income Spent on Housing in Ontario
Owners and Renters, 1991 Census

Percentage of 1990 Household Income	Owners without mortgages	Owners with mortgages	All Renters	Renters in Toronto CMA
Less than 20%	88%	38%	39%	38%
20 - 24.9%	5%	18%	16%	17%
25 - 29.9%	3%	14%	12%	12%
30 - 39.9%	2%	14%	12%	12%
40 - 49.9%	1%	6%	7%	6%
50% and over	2%	10%	15%	15%
	100%	100%	100%	100%
Average Income	$58,894	$66,393	$34,971	$39,722
Number of Households	1,100,900	1,156,475	1,298,620	565,555
Total spending 30% or more	5%	30%	33%	33%

Source: Statistics Canada, Housing Costs and Other Characteristics of Canadian Households, Cat 93-330, May 1993, Tables 4 and 5.

The reason for the absence of massive defaults is abundantly known. It has been well established in the housing literature for at least two decades. Housing economists, such as George Fallis (York University) have been pointing out for some time that the housing expenditure-to-income ratio is a poor estimate of the household's ability to meet its basic needs and a misleading indicator of a household's ability to pay for what it needs.

> "[T]he approach of using a housing expenditure-to-income ratio as a proxy [for a fuller argument about the ability to consume other commodities] may have some appeal if housing expenditure and income are the safest variables to measure. The approach has not been correctly applied, however.... More important, this approach is very misleading. It labels the inadequate consumption of nonhousing items as a housing problem.... The approach leads to both bad housing policy and bad social policy.... The development of housing policy in Canada would be well served by abandoning the affordability problem measured by a shelter expenditure-to-income ratio." (Fallis, 1983:297)

Economist Denton Marks (University of British Columbia), in his study of housing affordability for the Ontario Commission of Inquiry into Residential Tenancies, discusses in some detail the measurement problems involved in using rent-to-income ratios.

> "What are the problems with an indicator such as the rent-to-income ratio...? It has already been mentioned that household size has a bearing on the choice of an appropriate ratio. Other weaknesses of the rent-to-income ratio are: 1) it is essentially arbitrary; 2) it fails to reflect changes in relative prices; 3) it is not easily adjusted for the amount of housing services being consumed and the substitutions available to the household; and 4) it relies on current rather than permanent income and is subject to seasonal and cyclical sensitivity." (Marks, 1984:25-26)

The minimum income criteria based on a ratio is just one of many housing indicators. "Given the variety of circumstances facing different households," Baer writes in his study of housing indicators, "rules of thumb about the percent of income to be devoted to housing can be extremely misleading in individual cases and therefore in aggregate data

as well." He adds that a " rent-income ratio for one kind of household may not be appropriate for another, and that imposing the same standard for all households is unrealistic" (Baer, 1976:383-384).

> "Whereas simple ratios of housing cost to income seem sufficient as indicators, a sophisticated standard needs to incorporate considerations of age of the head of household and household size before an appropriate ratio standard should be applied. Otherwise appropriate variations in household behaviour will be ignored, all circumstances will be mistakenly judged by a single criterion, and estimates of deprivation or need will be in considerable error." (Baer, 1976:386-387)

There is, therefore, no fear of hundreds of thousands of households failing to pay their rent and getting evicted simply because they are paying more than 50% of their household income on rent. The housing expenditure-to-income ratio is simply not a valid and reliable indicator of ability to pay rent.

What is most interesting, however, is the large gap which exists between this vast body of scholarship and the day-to-day practice and beliefs of some Ontario landlords. The three housing researchers just cited, Fallis (1985), Marks (1984), and Baer (1976), are well known and their work is readily available. Yet, when an Ontario based organization of landlords published a study in 1986 entitled *Rent to Income Study*, none of their research findings were cited -- no research was cited -- in helping to frame the study. Rather, the 30% ratio was selected and was asserted as a self-evident truth about affordability. Language such as "comfort zones," "hardpressed" households, "excessive" amounts, and "pain thresholds" was used in relation to groups paying more than 30% of income on rent. The unidentified authors admitted that "we arbitrarily" chose "30 per cent as the upper limit of what was manageable":

> "The first group is those people spending less than 20 per cent of their income on rent, which we believe is well within the comfort zone. The second group spends between 20 and 30 per cent of their income on rent, which is not necessarily comfortable but manageable. The third category spends more than 30 per cent of their income on rent, a group clearly hardpressed." (Fair Rental Policy Organization of Ontario, 1986:4)

> "The results of the analysis are both very graphic and quite frightening.... As mentioned earlier on in the text, we had arbitrarily chosen 30 per cent as the upper limit of what was manageable, so we find a high proportion of renters in the low income category are simply not being properly accommodated by the current system.... If we accept the 30 per cent level as being the pain threshold, then no one in the medium income group ... is forced to dedicate an excessive amount of their income to rent. (p.12)

The results which the landlord's association study found "very graphic and frightening" related to the situation of lower income households.

> "The inescapable conclusion that one must draw from these statistics is that low income tenants in Toronto are, in overwhelming numbers, paying an unacceptably high proportion of their family income in rent, while at the same time, virtually everyone making in excess of $20,000 per year in family income can find affordable accommodation." (p.13)

It is the methodology used and the analysis of the data, not the numerical findings, that are problematic. The analysis of the data is a "graphic" example of stating the obvious--circular reasoning. Poor people have very little cash and therefore, on average, pay a high proportion of it on rent. Higher income people have a great deal of cash and therefore, on average, pay a smaller proportion of it on rent. Middle income people are in the middle. These relationships were known before the "statistics" were gathered (see Appendix B) and recognized in the housing research literature as virtually meaningless in relation to defining housing affordability. Existing stereotypes, however, are reinforced by these "statistics." It starts with the "arbitrary" definition of an affordability measure (the 30% of income "rule") and leads to the "inescapable conclusion" that lower income people cannot afford to pay their rent. All this is based on the 30% rule of thumb that many landlords were already using at the time to exclude lower income groups from their units. It is the landlord association's *own* definition of "paying an unacceptably high proportion of their family income in rent" (p.13). It is not that of the prospective renter, nor is it one based on the vast body of literature on the subject (see Background Papers #1 and #2). This is an admission of stereotyping a group (lower than average income households) on the basis of a self-selected statistical measure. There is no evidence

offered supporting this negative stereotype -- that this group cannot afford to pay the rent, and that they are "a group clearly hardpressed." (p.4) Evidence is not even sought. We even have the admission that the stereotype is based on "an arbitrarily chosen" criterion.

In short, the inadequacy in the definition of income used in the standard housing expenditure-to-income ratio is itself enough to invalidate the use of minimum income criteria by landlords in the rental marketplace. *It is not a valid and reliable indicator of what it claims to measure.* There is no evidence to support its use as a measure of housing affordability or ability to pay. There is a great deal of evidence to the contrary -- evidence that many households are paying more, much more, than the prescribed ratio. *The reality of how households manage to meet their needs, including the need to have the cash to pay their rent, is too complex and diverse to be summarized in one simple measure.*

This analysis of how households actually meet their needs does not address the equity and fairness issues associated with the need and ability of lower income households to forego some necessities and to go to great lengths to conserve cash resources for budget items requiring cash (such as the monthly rent payment). This is likely to be an especially difficult problem for families with children, single mothers, and for the elderly. Middle and higher income households seldom need to draw upon their non-cash resources for meeting their needs. In market economies, money may not buy happiness, but it does buy the full range of a household's necessities -- allowing individuals within relatively wealthier households to get on with the satisfaction of other needs, wants, and desires. The point here is that there is an abundance of social science and economic evidence pointing to how tough it is for lower income households to get by and how the vast majority manage to do so against great odds. Lower income households should not have to face denial of access to a housing unit *they* consider to be appropriate and affordable based on *their* assessment of their household requirements and resources.

4. Question #2: What is the Scientific Basis for the Rule of Thumb Measures of Housing Affordability

> *"The Right to a Home. Social welfare demands for every family a safe and sanitary home; healthful surroundings; ample and pure running water inside the house; modern and sanitary toilet conveniences for its exclusive use, located inside the building; adequate sunlight and ventilation; reasonable fire protection; privacy; rooms of sufficient size and number to decently house the members of the family; freedom from dampness; prompt, adequate collection of waste materials. These fundamental requirements for normal living should be obtainable by every family, reasonably accessible from place of employment, at a rental not exceeding 20 per cent of the family income."*
>
> -- U.S. National Conference of Charities and Correction, 1912 (quoted in Wood, 1919:10)

Various rules of thumb about housing affordability have been used, as this chapter points out, since the 1850s. They must, one could reasonably assume, have some scientific justification, some empirical basis. By examining the origins and evolution of rule of thumb measures of housing affordability we can clarify exactly where they came from and thereby answer the question regarding the quality of their scientific justification.

A household is said to have a housing affordability problem, in most formulations of the term, when it pays more than a certain percentage of its cash income to obtain adequate and appropriate housing. This formulation of the housing problem has its roots in nineteenth century studies of household budgets and in the commonly used expression "one week's pay for one month's rent." By the 1880s a week's wage for a month's rent was a widely used rule of thumb for referring to the housing expenses of some tenants, though there is no record of exactly how and why this usage came about. This late nineteenth century adage about "one week's wage..." continued into the twentieth century

becoming an adage about 20%, 25% or 30% of income as somehow representing the upper limit of what households can afford to pay for housing. These adages are based on little more than assumptions about what average households tend to spend and/or beliefs about what they ought to spend on housing.

A good example of how social reformers commonly used the 20% rent-to-income ratio in the early decades of this century is the housing standard describing the "fundamental requirements for normal living" established in 1912 by the U.S. National Conference of Charities and Correction (quoted at the start of this chapter). It claimed that "a rental not exceeding 20 per cent of the family income" was the upper limit on what households "should" pay. This is a statement about what renters *should* pay, though there is no explanation as to how the 20% figure was derived.

Through the decades the percentage used in the rule of thumb gradually shifted upward. In Canada the 20% rule of thumb lasted until the 1950s when somehow the 25% rule of thumb came into use, only to be replaced in the 1980s by the 30% rule of thumb. Who is the keeper of this rule? When and why do *they* (he, she or it?) change it? By whose authority does it get changed? The changing of the rule is as cloaked in mystery as is its origins, its empirical basis, and its ability to survive. It has managed to survive the condemnation and ridicule of a surprisingly unanimous body of scholarly literature. It is rare to find housing researchers from so many disciplines and perspectives in such total agreement.

Part of the answer about the scientific and empirical origins of the rule of thumb measure can be found in the very definition of what a "rule of thumb" is. It is, by definition, not based on scientific knowledge. According to the *Oxford English Dictionary*, a rule of thumb is

(1) "A method or procedure derived entirely from practice or experience, without any basis in scientific knowledge; a roughly practical method. Also, a particular stated rule that is based on practice or experience."

(2a) "Of methods, etc.: Based merely upon practice or experience."

(2b) "Of persons: Working only by methods derived from practice." (2nd edition, vol. XIV, p.232)

The inadequate definition of "income" in conventional housing expenditure-to-income rule of thumb measures goes a long way in explaining why it is so difficult -- most experts would say impossible -- to construct a simple but empirically valid statement to describe the relationship between housing expenditure and income. Households can pay the monthly rent by calling on a variety of resources, not just the easy to measure cash income of the household.

Housing researchers over the past few decades have universally dismissed the rule of thumb measures as misleading and invalid indicators of either housing need or affordability. A review of their origins and evolution finds that there is no empirical or even logical basis for the rule. It is a rule which, it turns out, has its origins in the mid-nineteenth century, in attempts by early social scientists to define laws of human behaviour similar to the laws of nature that natural scientists were busy discovering. The attempt to even try to define such universal laws about household budgets faded away by the early decades of this century. By the 1930s even the use of income and expenditure ratios as rules of thumb faded from any respectable use by housing experts, though its use in the popular media and, obviously, in the housing market, has continued.

The major contemporary popular use of housing expenditure-to-income ratios is to define in some global terms the extent of housing *need* and housing *problems*. This use of the ratio takes a relatively innocent descriptive statement of fact and dresses it up as a valid and reliable interpretative measure of housing need (or lack of need) on the basis of a subjective assertion of what constitutes an "affordable" housing expenditure. It is difficult to find any major housing researcher defending the use of the housing expenditure-to-income ratio as a means of defining housing need or housing affordability. Listed below are a few examples of the comments of housing researchers on this use of the housing expenditure-to-income ratio. A more extensive sample of expert commentary is provided in Appendix C.

- "'What proportion of their income should people devote to the costs of their housing?' -- [is] a popular but ineptly posed conundrum for which some correspondingly inept solutions have been proposed.... For the individual households any reckoning based on the income of the household or its principal earner is likely to be misleading." (Donnison, 1967:255-256)

- "With the passage of time, it has become apparent that the rule is both inaccurate and inappropriately used.... Although lenders and rental agents use the rule of thumb to identify prospective borrowers and tenants who might not meet their monthly payments, there is limited evidence to support this practice. Defaults and foreclosures are most often associated with unstable incomes or occupations and unexpected family crises such as unemployment, exceptional medical bills or divorce.... The use of the rule of thumb is, at present, justified primarily by tradition. What constitutes a 'normal' allocation of income for shelter is not well understood, and even less is known about the maximum housing expenditure a family can make without jeopardizing its ability to purchase other necessities." (Lane, 1977:iv-v)

- "In short, the shelter to income ratio approach, by itself, is not an accurate measure of housing need." (Burke, Casey & Doepner, 1981:10)

- "[T]he housing expenditure to income ratio should not be used to define housing problems because it is really a proxy measure for whether a household consumes all of life's necessities, and a poor proxy at that." (Fallis, 1985:20)

- "Any attempt to reduce affordability of housing to a single percentage of income -- no matter how low or high -- simply does not correspond to the reality of fundamental and obvious differences among households. Even attempts to establish a few prototypical groups and have somewhat different percentages for each, or set up narrow ranges in order to recognize some differences, fail to grapple in a logically sound way with the range of variation in what households really can afford to pay." (Stone, 1990:50-51)

- "The affordability debate has become one primarily concerned with defining a single ratio of rent to income.... The use of a single ratio is far too crude to cope with different household types on different income levels, who have different expenditure requirements." (Kearns, 1992:540)

In spite of the weight and virtual unanimity of expert opinion, a rule of thumb ratio about housing costs has become part of the conventional wisdom in day-to-day language. This incongruity requires explanation, raising a number of serious questions about its origin and evolution. These questions are answered in a lengthy background paper prepared as part of this report:

> *The Use of Housing Expenditure-to-Income Ratios:*
> *Origins, Evolution and Implications,*
> Background Paper #2, by J. David Hulchanski.

The three parts of Background Paper #2 cover in some detail: (1) the nineteenth century origins, (2) the twentieth century evolution, and (3) the contemporary uses of housing expenditure-to-income ratios. In the first part the nineteenth century roots are traced in order to attempt to identify the theoretical and empirical basis from which the housing expenditure-to-income ratios emerged. The second part traces how the ratio came to be widely used through much of this century by key players in the housing system: social welfare advocates, mortgage lenders, government housing studies, and in the setting of rent levels in government subsidized housing. Then, based on this history, and based on an extensive review of the contemporary housing literature -- the literature which explicitly uses or assesses the use of income ratios in relation to housing -- six distinct uses are identified. With typical examples provided, each use is described and assessed based on the extent to which it can be considered a valid and reliable measure. This chapter provides a summary of the material in Background Paper #2.

4.1 Origins and Evolution of the Housing "Rules of Thumb"

The use of income ratios in housing analysis has its origins in the empirical work on consumer behaviour by a nineteenth century German statistician, Ernst Engel (1821-1896) and a number of other lesser known nineteenth century analysts of household budgets. In his history of the use of the housing expenditure-to-income rules of thumb for the U.S Department Housing and Urban Development, Lane (1977:5-6) states that Ernst Engel "proposed an 'economic law' which included the proposition that the percentage of income that households spend for lodging and fuel is invariably the same what ever the income." In contrast Herman Schwabe "suggested that, as total family

income rises, the amount allocated to housing increases at a lower rate." In 1868 Schwabe published the first detailed research on the housing part of the household budget, proposing a "law" related explicitly to housing. His law stated: "The poorer anyone is, the greater the amount relative to his income that he must spend for housing" (Stigler, 1954:100). Lane implies that even though Engel was wrong and Schwabe was closer to being correct, the contemporary use of the 25% or 30% rule of thumb defining affordability is closer to Engel's position. To add to the confusion, Margaret Reid, in her 1962 book *Housing and Income*, a work quoted by many neo-classical economists who write about the elasticity of housing demand (e.g., Winger, 1968), finds "very substantial evidence" for the "rejection of the Schwabe law on rent," even though, Reid notes, the Schwabe law "has long been accepted and many predictions and policies have been formulated with such expectation." To add further to this intellectual disarray over which "law" was or is *the* "law," Economist George Stigler (1954:99) notes that towards the end of Engel's career (in 1895) he recognized, based on further empirical evidence, that his earlier formulation of the housing part of his (Engel's) "law" was indeed wrong. So there is, then, the early Engel law and the late Engel law to choose from, and one can find Engel quoted both ways.

The problem with Engel's work and that of some of his followers is that the relationships he identified and the predictions he made were peculiar to food. In retrospect, we can see that they were easy relationships to identify -- that is, easy to make regarding food but more difficult in the case of the much more complex budget category, housing. Attempts to demonstrate similar laws for categories of expenditure other than food, especially for housing, therefore, had much less success. Housing presents numerous conceptual and practical difficulties. What is to be included in "housing" costs: cash rent, some or all utilities, maintenance, furnishings? What is meant by "income": gross or net, one or all adults' income, children's income if any? What about sharp temporary fluctuations in income and non-cash sources of goods and services which would otherwise have required expenditure of cash income? What about income from roomers, if any? As a result, numerous other laws of consumption related to housing flourished from a growing number of academics and government officials, using analyses of additional sets of budget data. Zimmerman (1936) lists 36 different laws or theories about the relationship of household expenditure and specific budget categories, many related to housing but with eight specifically focused on housing.

It is not unfair to conclude, in agreement with economist George Stigler in his 1954 review of this "scientific" body of work on household budgets, that none of this constitutes a solid contribution to either theoretical or empirical understanding of consumer behaviour. Rather, this history of attempts to study household consumption is largely a comedy of errors, all kinds of errors -- conceptual, theoretical, empirical and methodological -- in all kinds combinations and permutations. Zimmerman refers to all of this as "fog which shrouds theories of the relation between rent and the standard of living." There is, he writes sarcastically, "a series of so-called budgetary laws of rent such as the one by Schwabe, the rent law erroneously attributed to Engel, the revised rent law developed by the critics of the spurious law of Engel, and the several other alternative theories ..." (1936:180). By the 1930s the attempt to define "laws" of housing consumption had run out of steam. Zimmerman's 1936 text on household consumption is one of the last major works to examine and, in doing so, dismiss this approach to understanding consumption patterns. After clearing away the fog Zimmerman concludes that "no absolute laws can be postulated" about the relation between income and housing.

> "Now we must conclude that there are no fundamental general relations between income and the proportion used for rent .... The values classified under 'rent' are so complicated and so many influences come to bear upon the rental paid for or imputed to a house that each time and each social situation leads to unique results." (p.194)
>
> "Rent-paying, either in an economic or popular sense, is an expression of the general culture and cannot be understood except for its specific results under given conditions and at particular times.... "In general, it appears that the relations between income and expenditure in the field of housing are so unpredictable and so varied that no absolute laws can be postulated." (Zimmerman, 1936:197)

The assertion that rents should not exceed a certain percentage of income permeates housing discussion throughout the twentieth century. Yet it is difficult to find its users offering any empirical basis for this forthright declaration. There is no study, set of studies or body of literature concluding that a particular ratio or any ratio is an appropriate measure of what a household ought to spend. The assertion that a certain ratio represents too much for certain households seems to be based on ad hoc observations by social reformers and local public health and social welfare officials about what

lower or average wage earners can pay without affecting their ability to pay for food and other necessities. This has been turned around in recent decades and used in the rental housing market as a measure for determining which households it is best not to rent to -- on the assumption that they do not, as a group, have the ability to pay the rent. A practical rule of thumb used to try to assist lower than average income households has been turned upside-down and is now used against them.

The first sophisticated Canadian analysis of housing costs in relation to incomes was published in 1938 by the Dominion Bureau of Statistics using 1931 and 1936 census data. H.F. Greenway, the author of *Urban Earnings and Housing Accommodation of Canadians*, provides a critical analysis of the complex relationships, concluding that no simple summary of the relationship can be made.

> "The apparently conflicting evidence of the two types of frequency distributions really presents two aspects of a complex situation. The principal facts which they reveal may be summed up as follows:
> "1. There is a definite tendency for tenant families to spend a smaller percentage of earnings upon rent at progressively higher earnings levels. The absolute amount of rent increases, but not so fast as outlays in other sections of the family budget...."
> "2. The lack of trend in rent-earnings ratios as between different rent groups does not contradict evidence of the tendency just noted. This arrangement of the ratios does draw attention, however, to the wide variations in the importance of the home in the lives of different families...."
> "3. Frequency distributions indicate a greater consistency of rent-earnings ratios in earnings groups above $2,000 per annum than below this figure." (p.32) [The average household income for tenants was $1,400 in 1931 and $1,700 for owners.]

Greenway's observations are generally in keeping with the assessment of contemporary housing analysts. There is a wide diversity of rent-to-income ratios within and between different household types and income levels. No single generalization, as Greenway explains, is or can be valid.

4.2 Six Contemporary Uses of Housing Expenditure-to-Income Ratios

The debate associated with both scholarly and practical attempts to generalize about the relationship between the level of household income and housing expenditures which started in the mid-nineteenth century was largely settled in scholarly circles by the 1930s. Zimmerman's (1936) and Greenway's (1938) work are examples of the conclusions reached by the 1930s about the fruitlessness of attempts at making "laws" -- broad universal generalizations -- about the relationship between such complex aspects of human behaviour as housing expenditure patterns and household income. In the late 1940s, Humphrey Carver, at that time a professor of housing policy at the University of Toronto, summed up this rich human complexity quite nicely:

> "It must be confessed that the attempt to reduce family needs to a classified budget is a denial of the manifold varieties of human nature. While the desire for security persuades us to accept the conventional standards of our community, the equally vigorous urge for freedom of individual expression makes us all resist such uniformities. The idiosyncrasies, vanities, pleasures, and generosities that make life worth living cannot be accounted for in scientific budgets and economic formulae. But even this cold examination of minimum family needs has shown the many variable factors that must enter into household plans; it is clear that simple generalizations and rules-of-thumb for calculating a family's capacity to pay for housing may be quite misleading." (Carver, 1948:85-86)

Yet the use of a simple expenditure-to-income ratio continued. Some the ways in which it is being used are appropriate, while others are not.

In the postwar housing literature it is possible to find the housing expenditure-to-income rule of thumb being used in six distinct ways:

(1) *description* of household expenditures;
(2) *analysis* of trends and comparison of different household types;
(3) *administration* of public housing by defining eligibility criteria and subsidy levels in rent geared-to-income housing;

(4) *definition* of housing need for public policy purposes;
(5) *prediction* of the ability of a tenant household to pay market rent; and
(6) *selection* of tenants who can afford to pay market rent.

Much of the continued contemporary use of the housing expenditure-to-income ratio, as this list indicates, relates to the problem of defining housing "affordability." This list ~~which is also presented in summary form in Figure 4.2~~, helps in the process of distinguishing between appropriate and inappropriate uses of housing expenditure to income ratios.

The quotes from housing authorities criticizing the simple rule of thumb measures about housing affordability cited above (Donnison, 1967; Lane, 1977; Burke, Casey & Doepner; Fallis, 1985; Stone, 1990; Kearns, 1992), as well as those cited in Appendix C, are generally referring to the last three uses, not the first three. This is why a clarification using the above typology is necessary.

The list can be divided into two categories. The first three uses of housing expenditure-to-income ratios -- description, analysis and administration -- can be considered quite valid and helpful when used properly by housing researchers and administrators. By "used properly" it is meant that the research methods and the statistical analysis techniques are properly carried out -- i.e., no significant methodological errors are made. This leads to valid and reliable descriptive and analytic statements about the expenditures on housing of the different types of households being studied. This type of description and analysis of household expenditure patterns can also be helpful in defining administrative rules about eligibility for housing subsidies which are distributed on the basis of need (as opposed to universal programs).

The improper use of housing expenditure-to-income ratios, leading to invalid and unreliable results, is due to theoretical and conceptual errors. Uses four, five and six -- definition, prediction, and selection -- *are all invalid uses for they fail to measure what they claim to be measuring*, even if the research methods and the statistical analysis techniques are properly carried out. The ratio is faulty when used to define housing need and predict affordability due to a faulty conceptualization of the income part of the ratio (as explained in Chapter 3 and in Background Paper #1). The additional conceptual

problem arises because it applies a statistical average of a particular specific aggregate group of households to an individual household (as explained above), leading to the problem of statistical discrimination (as discussed in Chapter 2). It is to these uses of the rule of thumb that the housing authorities cited above and in Appendix C are referring to.

5. Realities #1: Discrimination on the Basis of Receipt of Social Assistance

"It is not sufficient to provide suitable and sanitary buildings. Many thousands of the working classes are far from grateful for being put into them. This phenomenon has repeatedly evinced itself in other great cities. You have not only to provide improved conditions of housing, but you have also to educate the working classes to such an extent that they will insist on living in a decent and sanitary manner."

--the Governor General of Canada, the Duke of Conaught, in his opening address, *The First Canadian Housing and Town Planning Congress, Winnipeg, July 1912. Proceedings,* p.62.

"The majority of tenants in this area are welfare recipients and are irresponsible. I am interested in some way of making tenants live up to their responsibilities and live like human beings instead of pigs, who bootleg and run bawdy houses instead of working like the rest of us."

-- a landlord in a City of Toronto Planning Board survey, 1966 (Rose, 1966:89).

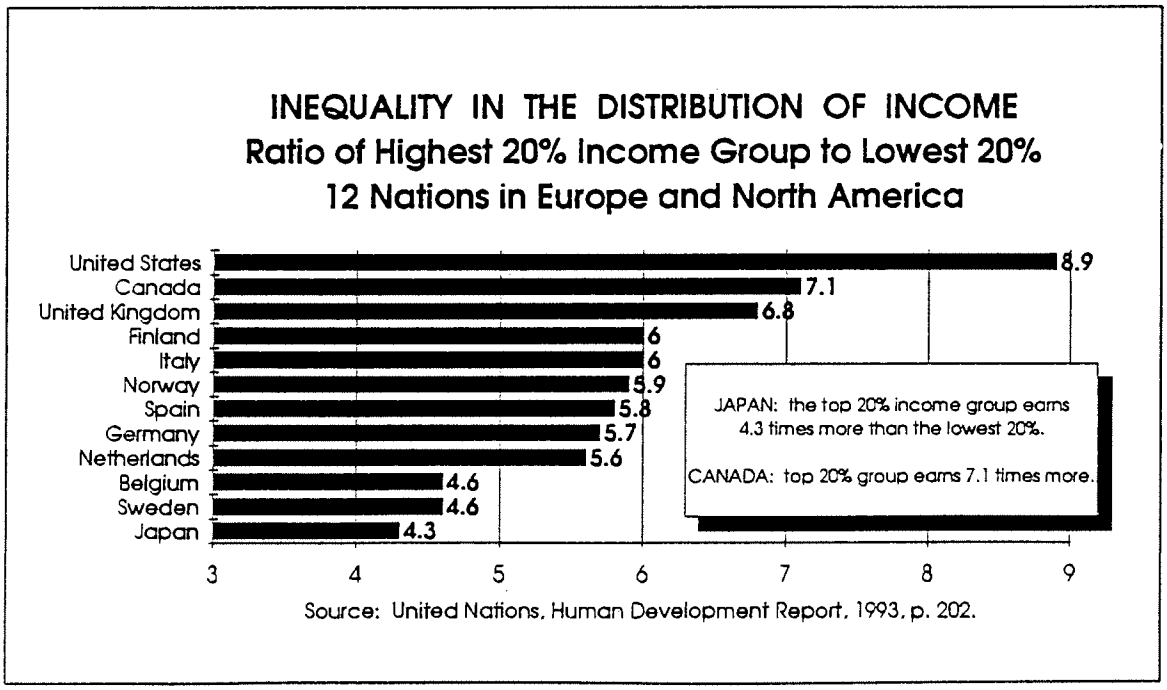
In a country with such a large gap between rich and poor (see Figure 5-1) there is a long history of treating lower income people as second class citizens and incorporating into the general culture a host of prejudices and negative stereotypes about people with lower than average income. This especially applies to people in receipt of social assistance and there is an abundance of evidence that the rental housing sector is not immune to this prejudice and stereotyping.

The 1934 study of the housing situation of the poor in the City of Toronto, *Report of the Lieutenant-Governor's Committee on Housing Conditions in Toronto,* made reference to the widespread discrimination against households on relief and to the adverse effects this was having on the living situation of these households:

> "While many landlords refuse to accept tenants known to be on relief, the quality of accommodation offered by those who will accept the relief vouchers is in most cases of the very meanest. The poorest families are thus compelled to accept the poorest accommodation with little chance of anything being done to improve it." (Toronto, Lieutenant-Governor's Committee, 1934:52)

Public sector landlords are not immune to the prejudices and stereotypes that permeate Canadian society. In the late 1950s, for example, the federal and Ontario governments appointed a committee of experts to review public housing eligibility criteria and rent setting procedures. The committee was chaired by Richard Davis, Executive Director of the Canadian Welfare Council, with Dr. Albert Rose, a professor of housing and social welfare at the University of Toronto, as the chief researcher. In their *Report of the Committee to Study the Federal-Provincial Rental Scale*, submitted in 1960, the committee noted that they were surprised at the extent of the discrimination taking place against the poor by public housing officials in many cities. During the 1950s, in the earliest public housing projects subsidized by the federal government, minimum income

Figure 5-1


INEQUALITY IN THE DISTRIBUTION OF INCOME
Ratio of Highest 20% Income Group to Lowest 20%
12 Nations in Europe and North America
United States 8.9
Canada 7.1
United Kingdom 6.8
Finland 6
Italy 6
Norway 5.9
Spain 5.8
Germany 5.7
Netherlands 5.6
Belgium 4.6
Sweden 4.6
Japan 4.3
JAPAN: the top 20% income group earns 4.3 times more than the lowest 20%.
CANADA: top 20% group earns 7.1 times more.
3 4 5 6 7 8 9
Source: United Nations, Human Development Report, 1993, p. 202.

criteria were part of the admission criteria. The Committee found that discriminatory practices were being used by public housing managers based on the use of minimum income criteria and by actively excluding households receiving social assistance. Here are their findings on these two issues.

> *Discrimination based on minimum income limits.* "It is the view of the Committee, nevertheless, that the application of a minimum income limit for admission to subsidized housing discriminates against the families with the lowest incomes in the community. By virtue of their very low incomes many such families are not admissible to subsidized public housing although they may be forced to pay, for quite inadequate shelter in the open market, higher rentals than they would pay in public housing. The Committee believes that the solution to this part of the problem may be, in part, the abolition of the minimum income limit and the substitution of a minimum rental requirement." (CMHC, 1960:99-100)
>
> *Discrimination against welfare recipients.* "The Committee found, through its studies, that families in receipt of public welfare allowances have been admitted to subsidized public housing in very few projects in Canada. In some communities none were admitted; in others one or two such families were tenants in mid-1958, but for most local housing authorities the proportion of tenants supported by public welfare programmes was less than 5 per cent.... It is difficult for the Committee to accept the view of some authorities that such families do not exist in their communities or are not in urgent need of housing.... The application of a minimum income limit may, however, have made it difficult for some authorities to admit families in receipt of public assistance.... The Committee holds the firm view that families dependent upon public welfare assistance for support form a normal section of the families in every community and, as such, should be given equal consideration with self-supporting families for admission to subsidized housing. Source of support should not be the prime consideration in admission.... The Committee concludes that a reasonable proportion of the dwellings in subsidized housing should be allocated to such families, perhaps 10 to 20 per cent depending on the local situation." (CMHC, 1960:104-105)

Also, the members of this expert review committee, like so many other housing experts before and after them, condemned the use of a simple percentage of income rule of thumb for assessing housing need and affordability.

> *On the 20% rent-to-income ratio.* "There is no clear rationale for the allocation of 20 per cent of income for shelter at the central point on the rental scale.... This proportion was accepted readily in 1947-1948 because it was the common rule-of-thumb at the time." (CMHC, 1960:114)

In 1972 another study of the eligibility criteria and rent scale used by public housing authorities in Canada was carried out by a consultant for the federal government. In "*A Review of the Rent-to-Income Scale for Public Housing Units*," the "source of income" was still being used as grounds for discriminating against households. The stereotype seems to have been that there is a qualitative difference between the two groups of the poor who qualify for public housing: those who receive social assistance and those who do not.

> "... welfare families are a growing proportion of applicants, but the desire to maintain a certain welfare/non-welfare ratio has meant that many of those technically eligible are not gaining admission mainly on the grounds of their source of income. Is it consistent with the objectives of the public housing programme that the mix of income groups or the source of tenant income be governing factors in the selection of tenants?" (Streick, 1972:14-15).

Reports of discrimination against social assistance recipients by public agencies occasionally appear in media accounts of related housing issues. In the early 1980s, for example, Canada Mortgage and Housing Corporation was the owner of many rental apartment buildings due to foreclosures. CMHC would rent the units and seek a private sector buyer. Yet CMHC's National Office is reported to have instructed its regional staff to avoid renting to people receiving social assistance. In a story about CMHC and the Ontario Mortgage Corporation keeping foreclosed apartment units vacant in Oshawa, despite the near zero vacancy rate at the time, the local social services commissioner claimed that: "They (CMHC) refuse people who are on social benefits. They are very selective." Then CMHC's Ontario director is quoted as stating he had received no

instructions to change this policy from the national office so as to help alleviate the local situation by renting. The CMHC's Oshawa office real estate manager told a *Globe and Mail* reporter that

> "welfare recipients are turned down because the social services department cannot guarantee their rent.... He said the criteria for renting is that the total outlay should not exceed 40 per cent of the family income." (Z. Hashmeri, "Crown firms keeping housing units vacant," *The Globe and Mail*, 9 January 1982.)

These are examples from the public sector. Most of the literature on housing discrimination in Canada relates to private sector landlord prejudice.

The Canadian Council on Social Development, in a 1979 study entitled *Racial Discrimination in Housing: A Discussion Paper on the Type of Prejudices and the Recent Incidence of Racial Discrimination in Rental and Ownership Housing Across Canada,* reported on the link between race and income status, with receipt of social assistance providing an additional barrier to housing access.

> "Racial prejudice is also closely connected with aversive attitudes to lower social-economic classes.... The difficulty with finding adequate accommodation is magnified if the applicant really is a welfare recipient, a female and head of a single-parent family or physically disabled. An individual may be in a situation of double jeopardy, for example, if she is black and unemployed." (Quann, 1979:5)

Even after the Ontario Human Rights Code was amended in 1981 to explicitly prohibit discrimination against households "in receipt of public assistance," there is still a great deal of evidence indicating continued discrimination against this group. In 1986, five years after the Human Rights Code was amended, a survey of landlords by the Ontario Task Force on Roomers, Boarders and Lodgers found that: "Many landlords report that they simply refuse to rent to welfare recipients" (1986:97). Also in 1986 the Ontario Legislature's Standing Committee on the Administration of Justice reviewed various aspects of the housing protections in the Human Rights Code. The Committee held public hearings and received oral and written submissions. It heard several reports

of incidents of discrimination experienced by recipients of social assistance seeking rental accommodation. These reports were presented not only by individuals but also by agency staff who had extensive knowledge of other individuals who had experienced such discrimination.

For instance, the report submitted by Ernestine's Women's Shelter to the Standing Committee noted that discrimination in housing on the ground of receipt of public assistance is experienced by women in particular because of economic and social disadvantage related to gender and family status.

> "Many of the women at the shelter have seen their applications tossed aside or thrown in the garbage when it was stated that they were receiving welfare or support payments from their estranged husbands. Several apartment buildings in our area require a minimum salary level in order to be considered an acceptable applicant. Disturbingly, not even the staff at Ernestine's would meet the income requirements." (Ernestine's Women's Shelter, 20 February 1986:2-3)

The shelter's submission also noted that many women, unable to access affordable housing in the private market, were forced to return to dangerous situations in the homes of their abusive spouses.

Dawn Buott, a resident for several months at Ernestine's Women's Shelter, explained that she was forced to stay in the shelter longer than the time limitation because of her difficulty in accessing affordable housing.

> "I filled out numerous application forms from apartment buildings that were owned privately or by companies and also private homes. I was given a number of reasons as to why my application was refused. They consisted of 1. my income was not adequate. 2. I was not employed. 3. Children were not accepted. 4. Recipients of Social Assistance are not welcomed and the list goes on." (Submission of Dawn Buott, 27 February 1986:1)

Similar observations were made by the North York Women's Shelter.

> "In our experience, landlords do discriminate against women with children and landlords do discriminate against women on welfare...These women are constantly victimized by the following myths which are prevalent in our society: if there's no man there must be something wrong, if there are children there will certainly be vandalism, if the women's on welfare she certainly won't pay the rent and if her previous address is a shelter it can mean only one thing, trouble."
> "As a result of discrimination, women with children are forced to live in the worst kinds of housing with the highest turnover and the worst maintenance." (North York Women's Shelter, 27 February 1986: 3)

As part of the submission of that Shelter, a single mother gave a personal presentation relating her experience.

> "I have phoned apartment buildings, driven around, walked the streets, put my name on waiting lists, but only to hear them say nothing is available or you didn't get it... Landlords ask if you have a husband, children, how many, and they do not want people on welfare. Some reasons being they do not want people at home all day hanging around because it will give the building a bad name and welfare people are a certain class or category of society you stay away from." (North York Women's Shelter, 27 February 1986: 4)

Several sole support mothers from the North York community organization Opportunity for Advancement made presentations to the Standing Committee expressing their frustration and anger at the discrimination they experienced in their attempts to access affordable housing.

> "Whenever I find something that sounds good in the paper, I telephone. As soon as they find out that I have a child, they reply: 'We don't accept children.' Even if they agree to rent to me and my child, when they find out that I am on Family Benefits, they refuse. I know that this is forbidden under the Human Rights Code of Ontario but most landlords don't seem to be aware of it." (Pam Weagle, Opportunity for Advancement, 26 February 1986: 2)

> "Another big problem I have found is when you find a place that will take kids, as soon as they find out you are on Social Assistance they automatically say no. A lot of them think if you do not have a job, you won't be paying your rent. I have been told they only want working people." (Barbara Lenneville, Opportunity for Advancement, 26 February 1986: 3)

The degree of discrimination on the basis of receipt of public assistance appeared to be of great concern to several of the members of the Standing Committee. MPP Evelyn Gigantes, for example, indicated that she was aware that such discrimination was frequent in her riding and elsewhere in the province.

> "I have been absolutely flabbergasted by the clear indication -- I have run into it in the city I live in, Ottawa -- of what seems to be the total pattern. Landlords will ask the source of income, especially of a mother with kids, and if that mother is on benefits, the apartment is just not available... We know that there are large numbers of buildings where the owners consistently refuse to rent to women who are on welfare or family benefits." (E.Gigantes, *Debates*, Ontario Legislative Assembly, 4 March 1986, p. J-5)

Ms. Gigantes asked several witnesses who appeared before the Standing Committee about their knowledge of such discrimination. Representatives from Neighbourhood Legal Services, Downsview Community Legal Services, Humewood House (an agency serving pregnant teenagers and adolescent mothers), Jessie's Centre for Teenagers, and the Ontario Association for Interval and Transition Houses all confirmed that this discrimination is frequent and widespread.

In 1988 the Ontario Government's Social Assistance Review Committee reported that during the course of their study they were told continually about widespread discrimination against social assistance recipients. The final report of the committee, *Transitions: Report of the Social Assistance Review Committee*, contains the following summary of these complaints:

> "We heard in the public consultations about the continued discrimination against children in 'adults only' buildings and against recipients of social assistance. We

> remain concerned about such discrimination, even through amendments to the Ontario Human Rights Code since the time of our hearings have broadened the protections available to people seeking housing. The provincial government should ensure that people are aware of their rights and that they have the ability and resources to take action against landlords who discriminate against them on these grounds." (p.479)

In its analysis and recommendations on housing the committee noted that the aim of improving the shelter component of social assistance is to "allow social assistance recipients to compete more successfully in the housing market" (p.477). They noted that this is not possible if discrimination, in addition to a lack of adequate finances, is a factor limiting access to housing.

> "Access to housing will also be improved by reducing discrimination, which will require the enforcement of existing human rights legislation that prohibits discrimination against social assistance recipients with respect to accommodation." (p.101)
>
> "Finally, it is important to ensure that social assistance recipients and others with low incomes have *access* to existing affordable housing, since these populations are usually the least able to compete in the housing market." (p.479)

A June 1992 survey of corporations owning or managing large numbers of rental apartments in Metro Toronto (Hulchanski & Weir, 1992b) included one question about renting to people in receipt of social assistance and another asked about minium income requirements. When asked "are you willing to rent at all to people receiving social assistance," six (22%) reported that they did not rent to people receiving social assistance. One refused to answer, one did not know, and nineteen (70%) reported that they did rent to people receiving social assistance. The six corporations that did not rent to people in receipt of social assistance owned or managed a total of approximately 27,860 units within the rent ceiling used in the survey. This was 56% of the total sample of "affordable" units in the survey's sample. When asked "are there income requirements for your units," nineteen (70%) reported that there were, six reported that there were none (22%), and two did not respond. Of the nineteen corporations which did have income requirements, fourteen answered the follow-up question: "What is the rent-to-income

ratio that you require?" All but two were between 25% and 33%. The other two were 35% and 40%. Both the mean and the median rent-to-income ratio was 31%. A copy of the research report presenting the findings of this survey is in Appendix D.

In November 1992 the City of Toronto Housing Department, in collaboration with the City's Multicultural Access Program, published a research report entitled *Refugee Housing Study.* It was carried out by Chisvin/Helfand and Associates. The consultants reported that one of the housing issues facing recent refugees, many of whom receive social assistance at least initially, was discrimination in the rental sector.

> "Some landlords welcome refugees, but it was widely reported that there is noticeable discrimination against refugees, welfare recipients, and single mothers among landlords. Respondents reported discrimination not only from private landlords, but also in dealings with public and non-profit housing providers." (City of Toronto, 1992:12)

Recent evidence from the Province of Quebec demonstrates similar prejudice against households receiving social assistance. The Centrale Immobilière Mérite Inc., a Quebec provincial organization representing private sector landlords, released a study in 1993 entitled: *Resultats de sondage: Le non-paiement de loyers par des prestataires de la securite du revenu* [Results of a survey: The non-payment of rent by social assistance recipients]. The average annual loss associated with renting to social assistance recipients was reported to be $660 (p.1). Many landlords, however, had no experience with renting to social assistance recipients. One third (34%) of the landlords interviewed reported that they did not rent to social assistance recipients. In response to the question: "When the vacancy rate returns to normal (3%) or the Minister does not modify the law [to permit direct transfer of housing allowance to the landlord], will you continue to rent to recipients, given that you cannot be assured of receiving payment for the rent?" A vast majority (72%) responded no, that they would not continue to rent to social assistance recipients (p.12). The study mixes its lobbying effort for direct payment to landlords of the shelter component of social assistance with advice about what to do with people on social assistance.

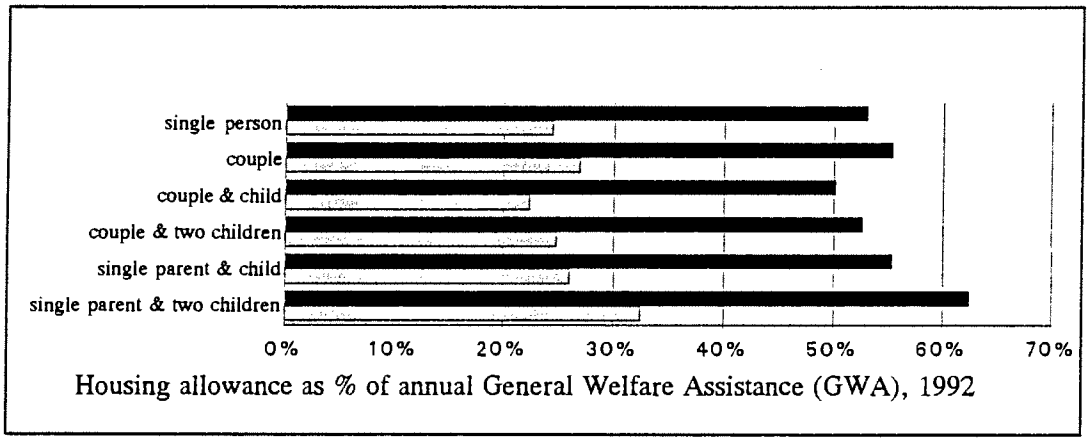
> "Social assistance must no longer dissuade people from working, for if obliged to get up in the morning, the work ethic will be valorized and pride will be given back to those who make recourse to relief, help of the last resort.... We propose a program of reinsertion into the labour force that would oblige recipients to perform forty hours of community service per month, divided into two periods of five hours by week. This would eliminate the current ability of recipients to work in the 'black market' and the perfect cover for criminals in the residential sector. Furthermore, 'employable' recipients will retrieve a sense of dignity in contributing to society. Everyone will be at the same level, and finally peace and dignity will prevail for all those who have not chosen to be on social assistance and those who will never be suitable for regular work." (p.14)
>
> "Rights equal obligations. If the Minister has the obligation of protecting the rights of recipients, then he must equally ensure that recipients fulfil obligations attached to their rights; this will permit property owners to regain the right to their rent payments and thus, the capacity to fulfil their obligations." (p.16)

Thus, during the decade since the Ontario Human Rights Code was amended to include "receipt of public assistance" as one of the prohibited grounds, there is plenty of evidence from Ontario alone that prejudice and negative stereotypes leading to actual housing discrimination persist. The use of minimum income criteria provides a perfect vehicle for excluding households in receipt of social assistance. Figure 5-2 provides a summary of the percentage of income which the housing allowance portion of the social assistance benefit package represents. Figure 5-2 is based on the Ontario government's provincial guidelines for maximum and minimum benefits as of October 1993. The amount of the housing allowance, and whether or not one is even received, depends on many factors.

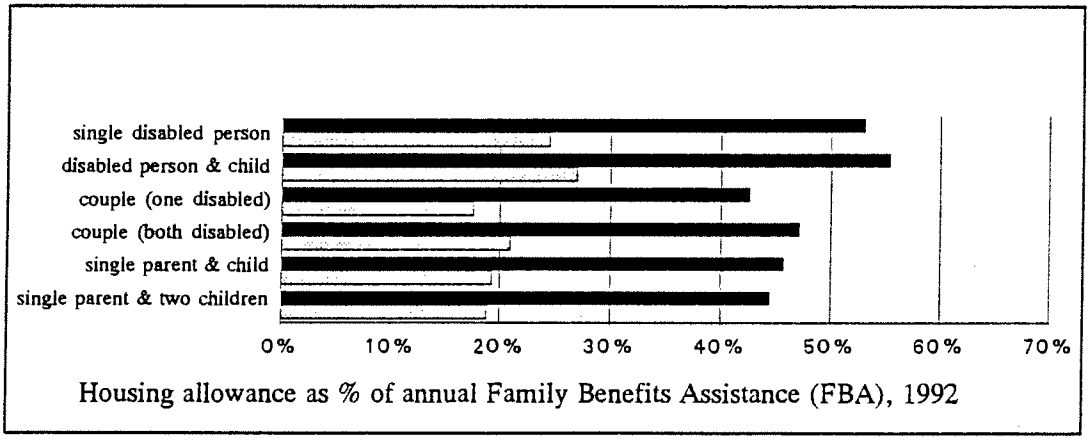
All households on social assistance receiving the maximum housing allowance, either the General Welfare Assistance (GWA) or the Family Benefits Assistance (FBA), fail a minimum income test if the rent-to-income ratio is set at 30%. In fact, all the households receiving the maximum housing allowance from FBA fail a 40% test while all receiving the GWA maximum fail a 50% test. Recipients who receive less than the maximum housing allowance may meet a 30% income test, but it is mainly those who receive the minimum allowable housing allowance who do meet it.. The minimum

Figure 5-2

Housing Allowance as Percentage of Annual Social Assistance Benefits



Housing allowance as % of annual General Welfare Assistance (GWA), 1992



Housing allowance as % of annual Family Benefits Assistance (FBA), 1992

■ maximum variable housing allowance for renters & owners as % of maximum annual benefits

▨ minimum (basic) allowance for renters & owners as % of basic annual benefits

source: Ontario Ministry of Community & Social Services, Social Assistance & Employment Opportunities. Oct. 1993.
prepared by: Melanie Rock. March 1994

housing allowance, however, is just that -- minimum. For example, a single person receives $120 per month for rent (whether disabled or not), a single parent with two children receives $220, a couple with one child receives $210. This is not enough to find a place to rent in most parts of the province.

Finally, is there a difference between the policies of the owners and managers of large numbers of rental units, the more professional corporate owners, and the landlord who owns or managers just a few units? Do they apply the measure to both lower and higher income tenants? There is limited research on this question. A reasonable hypothesis is that the professional owners and managers are more likely to use income criteria on a consistent basis. A survey of landlords in one New Jersey community found that there were important differences. The larger landlords used income criteria more frequently as "a crude predictor of whether a tenant would be 'good' or 'bad'."

> "Professional landlords, in particular, emphasized that income was a key determinant in deciding whether to rent an apartment to a tenant. These landlords wanted tenants who would be able to pay the rent regularly and on time and who were unlikely to 'skip out.' A common rule of thumb mentioned by these landlords was that tenants must spend no more than 25% of their income on rent. Other landlords gave specific incomes necessary to rent an apartment. Income became the key criterion for assessing the worthiness of a tenant -- a crude predictor of whether a tenant would be 'good' or 'bad'." (Gilderbloom, 1985:162)

Gilderbloom reports that the landlords with smaller numbers of units "showed a very different orientation toward tenants." For these landlords, "tenants' income appeared to play only a minor role." (Gilderbloom, 1985:164). His survey also found that most landlords did not want to rent to lower income tenants.

> "they feared that low-income tenants might frighten away more well-to-do tenants. According to one owner: 'I hold off units from renting until I get the rights class of people.... Don't rent to someone on welfare; that doesn't help the community.' Another owner elaborated: 'I won't take welfare or children in my rentals. In other areas I limit the children. Yes, I will empty out a welfare building of 66

building of 66 units. I'd rather be 75% full without welfare than 100% with welfare.'" (Gilderbloom, 1985:166)

On the question of whether income criteria are consistently applied to lower, middle, and higher income households there is also little research. Lane's study of the use of housing rules of thumb measures carried out for the U.S. Department of Housing and Urban Development in 1977 included a survey of landlords. Lane surveyed eleven "rental agents in low to moderate income housing markets" finding that eight (72%) used a rule of thumb of between 25% and 35% of gross monthly income. For the twenty "rental agents in middle to high income housing markets" whom he surveyed Lane found eleven (55%) used a percent-of-income rule (Lane, 1977:81). This is not enough evidence to establish very much other than to indicate that minimum income measures appear to be used in the United States, evidently as a mechanism for screening out lower income groups in general and social assistance recipients in particular, as Gilderbloom similarly found in his survey.

Ontario has a very regulated rental market. Given the evidence on the extent of prejudice and discrimination against lower than average income households, as outlined in this chapter, how do the specific characteristics of Ontario's rental sector affect landlord behaviour? This question is examined in the next chapter.

6. Realities #2: Discrimination in Ontario's Rental Housing Market

"Because there is an excess of demand in the controlled market, landlords ration units and presumably will favour 'desirable' tenants..."

-- George Fallis and Lawrence B. Smith (1985:545).

"Landlords are thus able to ration these scarce units and appear to do so by favouring 'desirable' low-cost tenants such as households without children, older households which are likely to stay longer, and higher income households.... Newly formed households, new entrants to the community, and especially low income households with children who were not original sitting tenants at the imposition of controls appear to be clearly disadvantaged by controls."

-- Lawrence B. Smith (1988a:227).

"In a regulated rental housing market ... Landlords can respond to excess demand ... by gradually replacing existing tenants with ones that are less costly to serve, e.g., those that are never late with the rent, who don't bother their neighbours ... and are less likely to complain.... [T]hey can, when vacancies occur, effectively practice a mild form of 'cream skimming' among would be tenants competing for their units."

-- W.T. Stanbury and John Todd, (1990:404).

Ontario's private rental sector is a classic "seller's" market. Those who own and manage the existing stock of rental apartment buildings are in a position to pick and choose tenants with little fear of facing vacancies. Demand is very high, even during recessions, and supply of new units is very low, even during building booms. There is not only a great deal of scholarly but also political debate about what caused these

conditions. There is less argument about the effects -- the severity of the discriminatory environment that prevails in Ontario's rental marketplace. The related debates over rent regulation (that is, are rent controls a response to market failure, or did rent controls cause the market failure) are important but not relevant here. It is the *reality* of the rental housing situation faced by tenants that is the issue. There is a severe lack of choice for renters seeking a place to live and a great deal of choice for landlords seeking to fill vacancies. This creates an imbalance in the operation of Ontario's rental housing sector which is detrimental to many households.

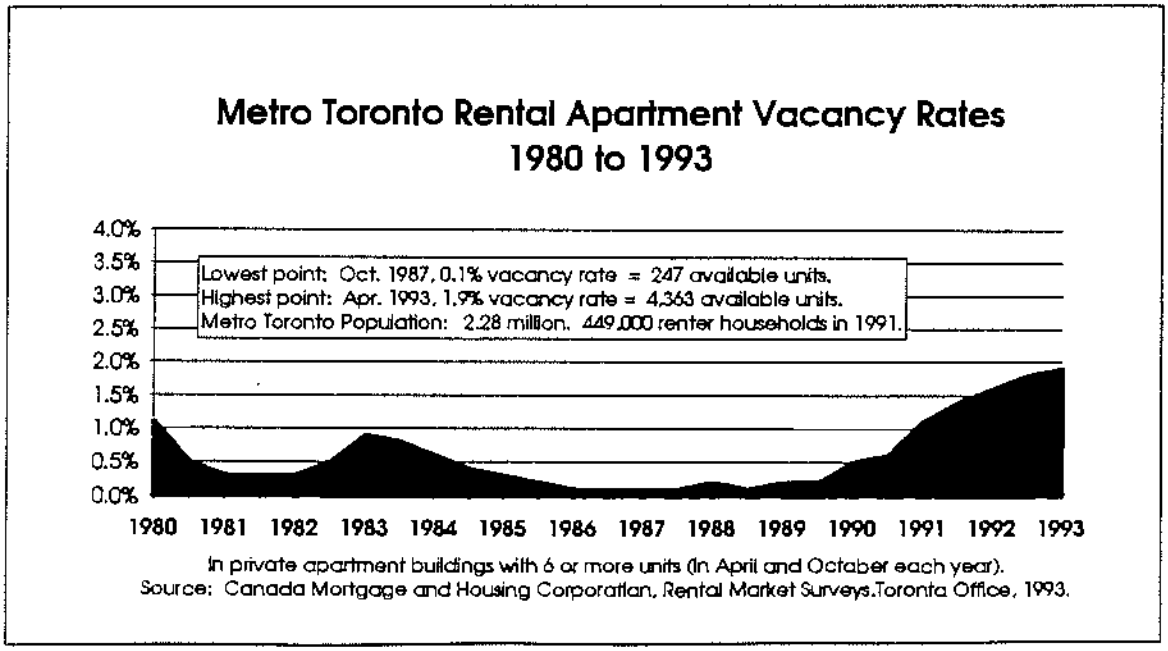
In theory this situation should not exist. A normally operating competitive rental housing market would usually have supply and demand in balance (equilibrium). A well functioning competitive market helps protect the interests of both the seller (landlord) and the buyer (tenant). Such a competitive market would only occasionally be out-of-balance resulting in either a temporary "seller's" or a temporary "buyer's" market. A low vacancy rate means that demand is high and supply is low, i.e., that there is a "seller's" market. In a functioning competitive market the low vacancy rate is the market signal to smart entrepreneurs that there are profits to be earned by moving quickly to meet demand by investing in new apartment buildings. Market dynamics, in a perfectly functioning competitive market, would not only meet the demand for housing but would result in maintaining a competitive vacancy rate. It is, furthermore, the threat of economic loss caused by vacant units which provides the economic incentive for landlords to maintain quality at a competitive price. The threat of vacancies also encourages landlords to be reasonable and fair in tenant selection. If they are "too picky" they are likely to suffer economic loss due to a higher vacancy rate in their building(s). This is the theory but it is not Ontario's reality.

The reality of Ontario's rental housing market departs dramatically from this "ideal" market scenario. Metropolitan areas like Toronto do not have "normal" competitive rental housing markets. Supply and demand in the private rental market is not functioning according to conventional market dynamics. Vacancy rates, for example, have been extremely low for about two decades yet there is very little new construction of apartment buildings taking place. Figure 6-1 shows the vacancy rates in Metro Toronto since 1980, indicating how demand has been consistently high, even during recessions. Yet there has been virtually no supply response from the private sector.

Figure 6-2 compares data on private sector rental housing starts to total starts in Metro Toronto from 1985 to October 1993. This demonstrates how insignificant the role of conventional private sector rental apartment housing supply has become. At the peak of the prosperity in the late 1980s (1988) there were 11,900 housing starts in Metro. Yet only 840 of these units, 7% of the total, were private rental starts. Just over half (52%) of Metro Toronto's 865,000 households are renters. Of course, at the high end of the rental market there are condominium units and houses for rent. These are not necessarily permanent contributions to the rental housing stock. Depending on market conditions they can be sold to owner occupiers. A recent housing study by Metropolitan Toronto concludes that, even though there has been a slight rise in the vacancy rate during the recession of the early 1990s,

> "the vacancies are still primarily in the upper-end stock. As well, large numbers of rented condos could quickly be shifted from renter to owner stock if market conditions shift. If rental demand falls off this would not matter, but if it remains high then vacancies could greatly decline except perhaps at the top end. Rental demand can be expected to continue to grow, unless immigration greatly declines.

Figure 6-1

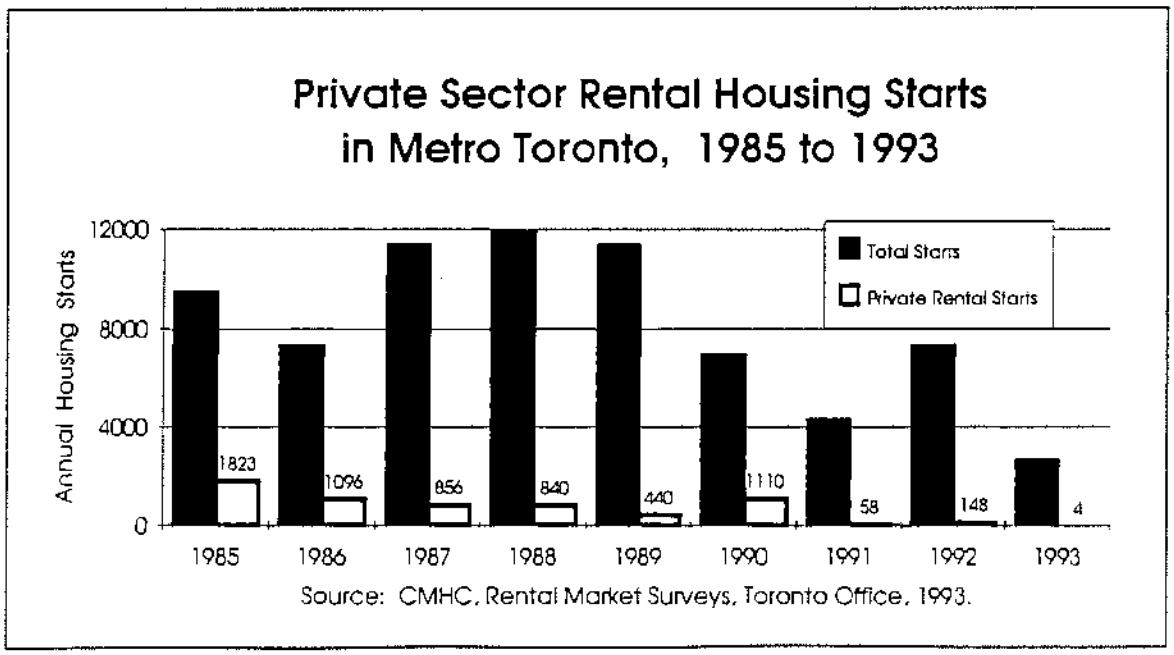

Metro Toronto Rental Apartment Vacancy Rates
1980 to 1993
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
Lowest point: Oct. 1987, 0.1% vacancy rate = 247 available units.
Highest point: Apr. 1993, 1.9% vacancy rate = 4,363 available units.
Metro Toronto Population: 2.28 million. 449,000 renter households in 1991.
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993
In private apartment buildings with 6 or more units (in April and October each year).
Source: Canada Mortgage and Housing Corporation, Rental Market Surveys,Toronto Office, 1993.

Indications are of much less new supply after the mid-1990's than has been seen from 1986 through the early '90's." (Metropolitan Toronto Planning, 1993:18-19).

The failure of the private rental sector to respond to high demand by building large numbers of apartment buildings as happened in the 1960s is similar to that of metropolitan Vancouver where the provincial government removed rent controls, hoping this would make a difference. It did not. Removal of rent controls had no impact on increasing private rental supply (Hulchanski, 1988). By the early 1980s rental market analysts were beginning to recognize that market failure was occurring in the rental sector. Due to a variety of negative factors affecting the rental market "the collapse of the private rental sector was inevitable" and "the outlook remains relatively pessimistic" (L.B. Smith, 1983:71,73).

The "collapse" refers to the conventional rental sector -- apartment buildings developed and managed for the private rental market. In the Greater Toronto Area (GTA), for example, it is estimated that the sources for the increases in rental supply in

Figure 6-2



the 1980s, in order of importance, are: rented houses (single, semi, row); apartments in houses (accessory apartments); rented condominium apartments; non-profit social housing; and, finally, private rental. It is estimated that rental units in conventional apartment buildings comprise 49% of the GTA's rental stock of 640,000 units. The rest consists of:

- rented houses (90,000 units, 14%);
- public and non-profit rent-geared-to-income housing (85,000 units,13%);
- apartments in houses (60,000 units, 9%);
- rented condo apartments (50,000 units, 8%); and
- non-profit social housing -- market rent not RGI (40,000 units, 6%).

This means that the structure of the rental market in greater Toronto is now much different from 10 to 20 years ago, when the conventional rental sector comprised the vast majority of the rental stock (Metropolitan Toronto Planning, 1993:11-19).

There are now three categories of rental stock:

(1) 22% of the units at the upper end of the market, the rented houses and rented condos;

(2a) 49% of the units in the middle and lower part of the market, the conventional rental stock of private sector apartment buildings;

(2b) 15% also in the middle and lower part of the market, the apartments in houses and the market rent (non-RGI) social housing units); and

(3) 13% in the rent geared-to-income public housing and non-profit housing sectors.

Households which cannot afford to become home owners must seek housing in this segmented rental sector. Lower and middle income households are limited to category #2 (both #2a and #2b) if they do not qualify for an RGI unit in category #3. Even if they do qualify, they could be on a waiting list for years. Thus it is important that the tenant selection process be fair. The low vacancy rates mean there is very little choice to begin with. Households experiencing discrimination have even fewer choices. Most of these renters are limited to units in categories #2a and #2b.

This brief summary of the rental housing supply problem points to the special position in which owners and managers of the existing stock of apartment units find themselves. They own or control one of the essential needs of all people, adequate housing, yet little new stock in their part of the rental market is being built. As economist L.B. Smith argues, under these circumstances of a highly regulated market with little supply and tremendous demand, landlords can afford to be highly selective and they will logically seek ways of being selective.

> "Landlords are thus able to ration these scarce units and appear to do so by favouring 'desirable' low-cost tenants such as households without children, older households which are likely to stay longer, and higher income households.... Newly formed households, new entrants to the community, and especially low income households with children who were not original sitting tenants at the imposition of controls appear to be clearly disadvantaged by controls." (L.B. Smith, 1988a:227)

There are two implications of this "seller's" rental market. The high demand means there is the opportunity for price inflation -- what some tenants describe as "rent gouging." It also means the opportunity arises for the application of highly selective tenant screening measures -- what some tenants characterize as human rights violations. Over recent years the first issue, rent inflation, has been addressed by changes in rent regulations. The second, discrimination in tenant selection, has yet to be adequately addressed.

Rent Inflation. In a seller's market, the entrepreneur who happens to have the goods or services which are in high demand, can set prices at a much higher level due to the high level of demand. This forces some consumers to cease consuming the good or service which then has the effect of lowering demand, potentially forcing down the price. This does not happen in the rental housing sector because tenants cannot cease consuming rental housing. Some tenants, but very few, can choose to leave the private rental market. A few may be able to buy a house and a few may be able find a unit in the social housing sector. Tenants have to live somewhere and, with alow vacancy rate, they have few options. It costs a great deal, in time and money, to move. No rent regulations would result in increased rents and claims of rent gouging. Tenants feel they are being taken advantage of by market failure and seek to be protected by public

regulation since the competitive market forces have failed to protect them. Rent regulation and continual improvements in the regulatory environment are the result of this dynamic. As noted earlier, however, some housing analysts blame rental housing problems on regulations such as rent controls, while some see rent regulation as a response to rental market failure. It is the existing and likely future rental market reality confronting the renter in search of a place to live that matters here.

Discrimination in Tenant Selection. Even though the size of the annual rent increase is regulated, as it is in Ontario, the rental housing sector continues to be a seller's market. This aspect, the lack of supply, has not been changed. As long as the vacancy rate is very low, ensuring that demand is very high, landlords can be highly selective in who they choose to rent to. The situation becomes one in which landlords seek ways to identify "desirable" tenants, as pointed out by the Canadian economists quoted at the beginning of this chapter. Due to market realities landlords have little fear of having vacant units even though they are using highly "discriminating" tenant selection criteria. Not surprisingly, the consequence is a large number of tenant claims of discrimination. Some tenants feel they are being excluded on grounds which have no bearing on the matter of whether they will be good tenants. They demand to have their rights better protected. Improved human rights legislation and enforcement is one remedy being sought. The question though is: what kind of changes in human rights protection and/or enforcement is required? The answer depends on the methods that the landlords may be using which results in disadvantaging already disadvantaged groups.

This second impact of Ontario's "seller's" rental market brings us directly to the issue of the use of minimum income criteria by landlords. The use of an arbitrary rule of thumb related to household income provides an ideal rationing device for *identifying* and then *discriminating* in favour of what Smith calls the "'desirable' low-cost tenants" and to achieve what Stanbury and Todd refer to as "cream skimming." What characteristics define the "desirable cream" among Ontario's pool of renters? Are there detailed studies and careful analyses identifying valid, reliable and objective selection criteria? Or is it some version of Ernst Engel's or Herman Schwabe's rules of thumb? Where is the evidence that anything more than stereotypes and prejudice are at work in identifying the "desirable cream"?

Discrimination in housing markets is not limited to denial of access to particular buildings or locations. Access by individuals who are not part of the "desirable cream" can often be had at a price -- groups subject to discrimination may have to pay more. Many studies in the United States have found that blacks paid more than whites for equivalent rental housing (Kain and Quigley, 1975; Galster, 1977; Yinger, 1978; and Schafer, 1979). This indicates that some landlords will rent to disadvantaged groups (people from groups to whom they would rather not rent) so long as they can extract a premium for doing so. However, rent regulations in Ontario help prevent this effect of discrimination. Landlords in Ontario cannot (at least legally) extract the premium as they can in the some jurisdictions in the United States. The alternative is to become extremely selective and not take any of "those" people. This is the reason that the analysis of the economists quoted at the beginning of this chapter (Fallis, Smith, Stanbury and Todd) finds wide support among housing researchers, even though there is great academic debate over the analysis of the causes of this serious "collapse" in Ontario's rental market.

Chapter 1 noted that it is rare to find a consumer good or service in which the entrepreneur first applies an income criteria test to determine affordability. This anomaly is explained by the fact that the rental market in Ontario is very unlike the markets for most goods and services. It does not function like a typical supply and demand marketplace because the supply part is virtually missing. The demand part not only keeps growing due to natural population growth and immigration but it is also demand for something which everyone must have. Customers cannot simply stop consumption and households who cannot afford home ownership or access the small social housing sector must rent in the private rental market. Ontario's private rental housing sector, therefore, unlike other markets, is one in which the seller has the advantage of a virtually unlimited supply of customers. In addition, the existing sellers need not fear competition, for there is virtually no new supply of units coming on stream in their segment of the rental market. Part of the benefit of being in this market situation is the ability to exercise a great deal of discretion over the characteristics of the potential customers.

However, everything is not so rosy. Landlords in Ontario have the "disadvantage" of having to operate in a fairly effective regulatory framework which prevents unauthorized rent increases and protects a number of disadvantaged groups from overt discrimination. For those landlords who wish to engage in "cream skimming," the use of

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minimum income criteria is an effective method. It is in this sense that the use of minimum income criteria can, therefore, be viewed as a major loophole in Ontario's human rights protections.

7. The Potential for Undue Hardship on Owners of Rental Housing

> *Rationale for Government Intervention: "Imperfections in both the housing and mortgage markets could arise because of discrimination against certain groups. As an example, in the housing market, some landlords may refuse to rent units to students or single parent families. Similarly, in the mortgage market, discrimination may exist against some borrowers such as women or native people and against some rundown neighbourhoods, which lenders feel are undesirable. To the extent that discrimination does exist, government efforts should be directed toward removing the source of the problem."*
>
> *-- Task Force on Canada Mortgage and Housing Corporation, Government of Canada, 1979. Donald J. Matthews, Chair.*

If the owners and managers of rental housing in Ontario are prohibited from using minimum income criteria in the decision to rent, what forms of hardship are they likely to suffer?

The evidence presented in this paper, as well as the evidence offered in the background papers, demonstrates that housing expenditure-to-income rules of thumb are not valid and reliable measures of ability to pay rent. They simply do not measure what the users claim or believe they measure. The housing expenditure-to-income rule of thumb combines two conceptual errors: a narrow focus on only the cash income resources of a household, and the application to individual households of a unscientific rule of thumb based on an aggregate average. The average does not represent any real or actual household, just a conventional rule which is now used in the rental housing sector even though it is soundly condemned as being valid for all but uses one, two and three in the typology in Chapter 5.

Not using an erroneous, invalid measure as part of the criteria in the decision to rent to a particular household means, of course, that landlords will either be unaffected or that they will be better off. Landlords will be unaffected because the measure they are using to assess the ability to pay does not actually measure the ability to pay. Nothing changes when an erroneous measure ceases to be used. Landlords will profit by not using this (or any) invalid measure in that, if they have vacancies which they delayed filling due to rejection of tenants based on the use of such a measure, they will fill these vacancies more quickly. The evidence presented here and in the background papers indicates that there are many factors which affect a household's ability to pay. It clearly is impossible to develop a single generalizable test of ability to pay rent, as the over one hundred year history of trying to do so has demonstrated. The problem, however, is not simply tenants' *ability* to pay rent but also *willingness* to pay rent. There are no doubt many above average income households who are able but are unwilling to pay their rent. There are also no doubt many lower than average income households who could call on more of their "total household resources" as described in Chapter 3 (and Background Paper #1) to pay their rent, but are unwilling to do so. Neither *ability* nor *willingness* to pay rent lend themselves to any simple generalizable rules of thumb for all households.

How can landlords, or any group of practitioners, be wrong about the validity and reliability of a measure they widely use in contemporary practice? There are two answers to this question about day-to-day practice.

First, it is not always satisfactory to rely on "practice wisdom" for too often it is subject to error. Practice based on the best prevailing assumptions can be improved when new evidence presents itself, resulting in better practice. Look at the history of medicine and medical practitioners. How many patients did nineteenth century doctors kill by their procedures based on erroneous beliefs and assumptions? As medical doctors learned that certain practices were harmful and as they learned that certain other practices were helpful, they improved their practice. This is a continual process. Steady progress in improving day-to-day practice results from scientific empirical questioning and testing. Practitioners themselves sometimes resist accepting some of the new evidence and advice because of the strength of tradition and conventional wisdom, no matter how sound and valid the new evidence may be. Change is difficult for some people to accept; recognition that they have been acting in error is particularly difficult for some people to

accept. At best, practitioners in every field act on the basis of the best available knowledge. When some aspect of this conventional knowledge is subjected to scientific scrutiny, it is not unusual to find improved modes of practice and the recognition that certain modes of practice were inadequate or even harmful.

Second, there is plenty of evidence that practitioners in different fields can be guilty of acting on the basis of prejudice -- on the basis of stereotyped beliefs and attitudes which result from processes within the bearer of the attitude rather than from reality testing of the attributes of the group in question. As a form of prejudgment, prejudicial attitudes provide an answer about some group's characteristics on the basis of intuition and ancestral consensus of opinion. Unlike the first answer to the question outlined above, which relates to scientific progress in improving day-to-day practice, prejudicial attitudes about certain groups persist in spite of any scientific arguments or empirical evidence. When a landlord wants to act on the basis of prejudice, and where laws and regulations make it difficult to do so, proxy means of achieving the desired prejudicial outcome must be found. In Ontario's residential rental market minimum income criteria provides such a proxy. The applicant is not being rejected, so it is claimed, for being on social assistance, or because she is a single mother, or because he is a young black immigrant. Rather, they are being rejected because these households fail to meet supposedly valid and reliable criteria objectively applied to all applicants. There is no need on the part of these landlords for reality testing or the examination of scientific evidence because the measure's validity is not the point. By definition, prejudice does not objectively examine the qualities of the group or individual against whom the attitude is directed. It is an attitude which fulfils a specific irrational function for its bearer which is why rational argument and scientific evidence fail to be convincing.

These two reasons explain how and why landlords, or any group of practitioners, can indeed be wrong about the validity of a practice they currently use. Some landlords persist in its use, and actively defend their right to continue to use it, because they continue to believe, contrary to the evidence, that it is an adequate measure of ability to pay. They honestly refuse to believe the evidence. Other landlords persist in its use, and will defend their right to continue to use minimum income criteria, not because they believe it to be a valid measure, but because they need a *seemingly* valid measure to use

in order to continue their illegal discriminatory behaviour. They disagree with a law -- the protections offered certain groups in human rights legislation -- and will find means of circumventing it without, they hope, getting caught. For public policy -- for making decisions about regulations related to discrimination in the rental housing market -- motivation does not matter. What matters is the scientific assessment of the validity of the criteria some landlords wish to use. If it is not valid and if it harms groups protected by human rights legislation, why should it be used?

In summary, the evidence presented in this paper and the two accompanying background papers demonstrates that use of minimum income criteria is not a valid measure of ability to pay and, as such, no harm is done to landlords if they ceased to use it. The continued use of the measure, however, does clearly cause harm to the tenant households to which it is applied and who face rejection from apartments for failing to meet the criteria. The use of minimum income criteria is directly perpetuating and exacerbating the hardships endured by the already disadvantaged groups and individuals that human rights legislation seeks to protect. It does not matter to these disadvantaged households whether the criteria is being applied in honest belief that it is valid or dishonestly as the excuse for discrimination. To these households, discrimination against them is the result. Landlords exclude them from accommodation they feel they can afford. Their search for housing is extended, adding to the search costs both emotionally and financially. These households are likely to end up paying more for worse quality housing. This is because they are restricted to a rental submarket where demand is very high and the quality is likely to be lower. The better quality apartments are more likely to go to those households that prejudicial attitudes and stereotypes deem to be "better." Minimum income criteria automatically define all higher than average households as part of the "better" pool of tenants while all lower than average income households are labelled as part of an "inferior" pool of tenants. Having a lower than average income does not automatically make a person better or worse, more or less responsible, more willing or unwilling to pay the rent, than someone with a higher than average income.

APPENDIX A

Validity and Reliability Tests and the Use of Statistical Averages in Social Science Research

by
J. David Hulchanski and Joseph M. Michalski

On Validity and Reliability

An issue which generates a great deal of discussion and controversy in the social sciences is *measurement* (cf. Blalock, 1979; Lazarsfeld and Rosenberg, 1955). A vast body of literature exists in the philosophy of social science on the extent to which researchers can measure anything in the "real" world, i.e., the world of the senses. The primary issue concerns the tension between our theoretical or conceptual views of the world and the manner in which we attempt to link these "internal" abstractions with observations of an "external" reality. Most analysts currently agree that theory and measurement are interdependent, such that one cannot have a conceptual understanding of reality without having some experiential basis for arriving at such an abstraction (Winston, 1974). Thus the challenge for social scientists becomes one of presenting a defensible rationale for selecting certain measures as adequate "indicators" of observable events.

The adequacy of social science measures often has to do with their *validity* and *reliability*. Although there are many usages of the term validity, in relationship to measurement the term refers to the degree of fit between a concept and the specified indicator(s) of that concept. In common language, valid measures are those that measure what they are intended to measure. The researcher defines a concept in theoretical terms and proposes specific indicators that allow her or him to observe the presence of the phenomenon (Carmines and Zeller, 1979:17). Yet there are several types of validity even within the discourse of social science, such as face, criterion, content, and construct validity -- not to mention internal, external, and statistical validity (cf. Neuman, 1991:129-131).

The concept of "housing affordability" provides an interesting case study for a discussion of validity. If housing affordability refers to a household's financial capacity to consume housing, then what would be a valid empirical measure? On the surface, a household's income appears to be a reasonable factor in determining housing affordability. The housing expenditure-to-income ratio has been selected *a priori* by some analysts as a valid indicator. To establish "face validity," though, requires "a judgment by the scientific community that the indicator really measures the construct" (Neuman, 1991:129). The testimony of experts in a variety of disciplines challenges even this most basic standard of validity in regard to housing expenditure-to-income ratios as measures of housing affordability.

To establish "criterion validity" requires an even more rigorous procedure. This type of validity involves a comparison of some measure with another external standard or criterion already known to measure the same concept accurately. Neuman (1991:130) asserts that one method for establishing criterion validity involves establishing the predictive capacity of a measure, "whereby an indicator predicts future events that are logically related to a construct ..." Hence if the housing expenditure-to-income measure has predictive validity, then those households that spend more than a certain percentage of their household income for shelter costs should be proportionately more likely to default on their rents. The evidence regarding the predictive capacity of a 30% criterion, for example, should reveal a *much higher* rate of default than currently exists.

A third type of validity known as "content validity" addresses the issue of whether "the full content of a theoretical definition (is) represented in a measure" (Neuman, 1991:129). Since housing affordability can be defined theoretically in relation to "total household resources," which include exchanges and transfers within several different economies rather than simply cash income from the market economy, the housing

expenditure-to-income ratio clearly fails to capture the complexity of how households secure resources to meet their needs.

The standard measure of housing affordability, therefore, does not achieve an adequate level of content, criterion, or even face validity. It is an invalid measure. A related issue concerns whether or not the measure can be considered a "reliable" indicator of housing affordability. Most conventional social science defines reliability as "a matter of whether a particular technique, applied repeatedly to the same object, would yield the same result each time" (Babbie, 1992:129; cf. Carmines and Zeller, 1979). Neuman (1991:125) describes reliability in essentially the same terms, arguing that a measure should provide the same result in repeated trials "as long as what you are measuring is not changing." By these definitions, the housing expenditure-to-income measure of housing affordability cannot be considered reliable, primarily because the technique does *not* consistently yield the same result -- even if applied to the same households. This is a demonstration of why an *invalid* measure tends to be unreliable and vice-versa. If a measure does not actually measure what it is supposed to (i.e., it fails the validity test), how can the measurement techniques be reliable?

If we assume, for argument sake, that the housing expenditure-to-income ratio is a valid measure, it would at best only achieve some limited degree of reliability. This is due to the extremely dynamic and complex nature of how each household secures its economic well-being. There are, as a result, at least two problems which cannot be avoided in the reliability of the housing expenditure-to-income ratio as a measure. In the first place, a household's income situation can fluctuate dramatically over the months and yet households continue, in the vast majority of cases, to pay their rents. This dynamic nature of the household cannot be captured with any degree of precision by means of a static, inflexible measure such as the 30% rent-to-income ratio.

The second problem relates closely to the first: many of the interesting concepts in social research, such as housing affordability, have subtle nuances that cannot be captured with any degree of precision. While science requires specificity to develop reliable measurements, "the specification of reliable operational definitions and measurements seems to rob such concepts of their richness and meaning" (Babbie, 1992:134). Thus the effort to define housing affordability in more narrow terms excludes much of the complexity and the interesting subtleties that influence a household's ability to consume varying quantities (and qualities) of housing.

On Statistical Averages

As careful as researchers may be in developing measures that are valid and reliable for data collection purposes, the data must then be subjected to appropriate forms of analysis. If the data are in quantitative form (i.e., subject to statistical manipulation), then there are a variety of specific statistical procedures available to help describe various aspects of the data set. The process of *data reduction* involves organizing data in a concise, presentable form. "Descriptive statistics" provide a straightforward way to represent the characteristics of a data set, often with a simple numerical description. The idea of an "average," or "arithmetic mean" in the language of statistics, refers to one such common measure. A statistical *mean* summarizes a distribution in terms of their average, which is determined by adding all of the scores of the distribution and then dividing by the number of cases. While an "average" is an important summary measure of the central tendency of a distribution, introductory statistics texts commonly note that a strict adherence to only one such measure can distort the representation of that distribution dramatically (Healey, 1993; Robson, 1993). The data for what the "average" Canadian household spends for housing provide an interesting illustration of how such a measure can be misleading without some additional or supplemental analyses.

The common "rule of thumb" regarding household budgets states that households should not spend more than about 30% of their income for housing expenditures. The figures indicate that the "average" Canadian household tends to spend proportionately less than the 30% criterion, or between 17% and 18% of their total household income for housing. Based on this one could conclude that the aggregate data would *appear* to lend some empirical justification to a 20% "rule." By the same token, however, the evidence indicates that households vary in the proportion of their income spent on shelter costs such that a strict reliance upon "average" figures distorts the reality of many -- indeed *most* -- Canadian households. The "average" has the unfortunate property of homogenizing the population of households by eliminating dispersion or variation along the characteristic(s) of interest. Measures of variability provide the crucial information in regard to the *spread* of a distribution, while means and other measures of central tendency focus on the *centre* of that distribution. A more accurate description of Canadian households requires *both* types of measures.

Furthermore, the "average" oversimplifies a complex reality by isolating the characteristic from other potentially influential factors. For example, if Canadian households are separated by tenure -- owners without mortgages, owners with mortgages,

and tenant households -- one observes that proportionate expenditures for shelter costs vary accordingly. The general patterns suggest that tenants spend proportionately more of their income for housing than homeowners. Yet homeowners with mortgages often have to spend a substantial proportion of their household income for shelter costs as well. In fact, whatever the absolute "average" spent for housing (17% to 18% in Canada), the majority of renters and owners *with* mortgages spend *more* than that. The lower "average" percentage of household income spent for housing stems from the fact that the vast majority (89%) of the nearly 3 million households *without* mortgages spend *less* than 20%.

A variety of other factors can potentially influence proportionate spending for shelter as well. Factors such as the loss of a job, retirement, divorce, seasonal employment, health emergencies, and many other phenomena can lead to dramatic monthly fluctuations in available cash income for housing such that in some extreme circumstances, a household may end up having to spend in excess of 100% of their total household income for housing (Preston, Murdie, and Fallis, 1989). No single measure of any type, including the "average," can speak to these complexities.

From a policy standpoint, the application of an aggregate measure such as a statistical mean to individual situations constitutes a form of statistical discrimination. The analyst or administrator who relies upon such measures to implement a policy can effectively ignore other relevant information for the sake of expediency, or perhaps for other reasons. For example, one does not have to judge the motivations of a landlord who rents a dwelling on the basis of the 30% criterion to observe the effects of the policy -- the exclusion of certain households from that particular rental option.

APPENDIX B

Rent-to-Income Ratios: Canadian Trends Since the 1930s

"Affordability" Assumptions Used in Canada since 1900

Housing Cost as a % of Household Income "Rules of Thumb"

Period	Rent as a % of Income
1900 to early 1920s	12%
1920s to late-1950s	20%
1960s to early 1980s	25%
since mid-1980s	30%

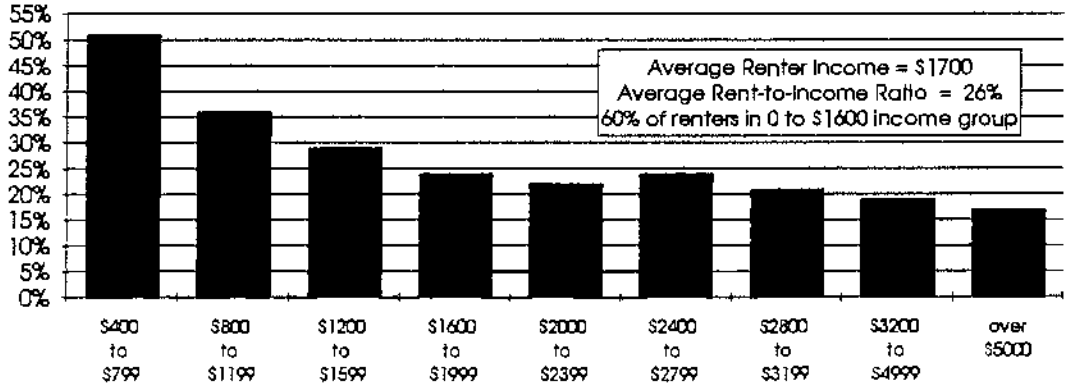
Source: Compiled by J.D. Hulchanski from review of housing literature.

Rents as a Percentage of Family Earnings, Toronto, 1931

Household Income Range	Rent as a % of Household Income	% of Households in each Income range
$0 to $399	189%	8%
$400 to $799	51%	11%
$800 to $1199	36%	15%
$1200 to $1599	29%	25%
$1600 to $1999	24%	12%
$2000 to $2399	22%	8%
$2400 to $2799	24%	8%
$2800 to $3199	21%	4%
$3200 to $4999	19%	6%
over $5000	17%	3%
Average: $1,700	26%	

Source: Canada, Dominion Bureau of Statistics (1938) Urban Earnings and Housing Accommodation in Canada, Ottawa, Table 14, p.33.

Rent as a Percentage of Household Income
Toronto, 1931



Source: Dominion Bureau of Statistics (1938) Urban Earnings and Housing Accommodation, Table 14.

Percentage of Income Spent on Rental Housing

Renter Households in Urban Canada, 1948

Percentage of 1948 Household Income	Renters in 14 major Canadian Cities
Less than 10%	6%
10 - 19.9%	48%
20 - 29.9%	28%
30 - 39.9%	11%
40 - 49.9%	5%
50 - 59.9%	1%
60% and over	1%
	100%
Average % of Income Spent on Rent	22%
Median % of Income Spent on Rent	19%
Total Spending 20% or more	46%
Total spending 30% or more	18%

Source: Albert Rose, Rental Income Study, Canadian Welfare Council, Ottawa, 1949, Table E.

Percentage of Income Spent on Rental Housing

Renter Households in Canada, 1948 and 1991

Percentage of Household Income	1948 Renters in 14 major Canadian Cities	1991 All Canadian Renter Households
Less than 20%	54%	40%
20 - 29.9%	28%	25%
30 - 39.9%	11%	12%
40 - 49.9%	5%	7%
50% and over	2%	16%
	100%	100%
Total Spending 20% or more	46%	60%
Total spending 30% or more	18%	35%

Source: Albert Rose, Rental Income Study, Canadian Welfare Council, Ottawa, 1949, Table E.
Statistics Canada, Housing Costs and Other Characteristics of Canadian Households, Cat 93-330, May 1993, Table 5.

AFFORDABILITY BY TENURE - RENTERS, 1981
TORONTO CMA

HOUSEHOLD INCOME		SHELTER TO INCOME RATIO							
QUINTILE	RANGE	<25%	%	25%-29%	%	>30%	%	TOTAL	%
First	<12,000	34,205	22.0	15,540	10.0	105,460	67.9	155,205	100.0
Second	12,000 - 20,499	82,445	60.3	28,350	20.7	25,900	18.9	136,695	100.0
Third	25,000 - 28,999	86,965	89.6	5,805	6.0	4,265	4.4	97,035	100.0
Fourth	29,000 - 40,500	61,750	96.2	1,350	2.1	1,110	1.7	64,210	100.0
Fifth	>40,500	31,940	98.1	260	0.8	345	1.1	32,545	100.0
	TOTAL	297,305	61.2	51,305	10.6	137,080	28.2	485,690	100.0

SOURCE: City of Toronto Planning and Development Dept., Special Run

AFFORDABILITY BY TENURE - RENTERS, 1986
TORONTO CMA

HOUSEHOLD INCOME		SHELTER TO INCOME RATIO							
QUINTILE	RANGE	<25%	%	25%-29%	%	>30%	%	TOTAL	%
First	<12,000	22,925	13.2	27,830	16.0	123,075	70.8	173,830	100.0
Second	12,000 - 20,499	89,525	59.9	28,090	18.8	31,720	21.2	149,335	100.0
Third	25,000 - 28,999	89,320	87.2	8,235	8.0	4,885	4.8	102,440	100.0
Fourth	29,000 - 40,500	61,985	95.5	1,900	2.9	1,045	1.6	64,930	100.0
Fifth	>40,500	34,465	98.1	415	1.2	270	0.8	35,150	100.0
	TOTAL	298,220	56.7	66,470	12.6	160,995	30.6	525,685	100.0

SOURCE: City of Toronto Planning and Development Dept., Special Run

Percentage of Household Income Spent on Housing in Canada
Owners and Renters, 1991 Census

Percentage of 1990 Household Income	Owners without mortgages	Owners with mortgages	All Renters
Less than 20%	89%	44%	40%
20 - 24.9%	4%	18%	14%
25 - 29.9%	2%	12%	11%
30 - 39.9%	2%	12%	12%
40 - 49.9%	1%	5%	7%
50% and over	2%	9%	16%
	100%	100%	100%
Average Income	$51,825	$59,541	$31,302
Number of Households	2,927,900	3,112,630	3,659,325
Total spending 30% or more	5%	25%	35%

Source: Statistics Canada, Housing Costs and Other Characteristics of Canadian Households, Cat 93-330, May 1993, Tables 4 and 5.

APPENDIX C

Is the Housing Expenditure-to-Income Ratio A Valid Measure of Housing Need and Affordability? A Survey of Answers from Housing Research

Compiled by
J. David Hulchanski

1957

Rapkin, Chester (1957) "Rent/Income Ratio," *Journal of Housing*, Vol 14, January, p.8-12. Reprint in: Wheaten, W.L.C., G. Milgram and M.E. Meyerson, eds. (1966) *Urban Housing*, NY: Free Press, 168-175.

"The major conclusion that one draws from an analysis of the [rent-income] ratio is that no single figure presents a satisfactory summary of the relationship." (p.172 in 1966 reprint)

"No discussion of the rent-income ratio can begin without a reference to the familiar belief that one month's rent should approximate one week's salary. It has never been quite clear to me whether this statement purports to be a statistical observation or whether it is a 'folkloristic' exhortation to husbandry.... How this homily has survived in the minds of men, despite a century or more of statistical research on the patterns of consumption, is for others to determine." pp.168-169.

The 1950 U.S. census data shows that "within each income class there is concentration within certain rent-ratio intervals. At the same time, it is apparent that there is a considerable amount of dispersion, more in some income classes than others.... [I]ncome alone only explains one-sixth of the variations in rent expenditures. Thus to account for the major portion of the variation, we must look beyond income differences." p.169-170.

1958

Beyer, G.H. (1958) *Housing: A Factual Analysis*, NY: Macmillan Company.

"Of course, any rule of thumb should be treated with reservations. Perhaps the most important variable in the case of housing is the size of the family. The number of children is important, and the stage of their financial demand (for example, a college education) must be taken into consideration." p.153.

"Another important factor to consider is the stability of the household head's job and his income outlook.... Another factor is the amount of savings the family has accumulated.... Still another important factor is the scale of preferences of the family. Different families prefer to allocate a different proportion of their budgeted expenditures for housing. Some give a higher priority than others to such items as food, clothing, education and other essentials, or even vacations." p.153.

1960

Maisel, S.J. and L. Winnick (1960) "Family Housing Expenditure: Elusive Laws and Intrusive Variances," Real Estate Research Program, University of California at Berkeley, reprinted in Wheaton, W.L.C., G. Milgram and M.E. Meyerson, eds. (1966) *Urban Housing*, NY: Free Press, 139-153.

"Our probe into the housing data of the *Study of Consumer Expenditures* yields one main conclusion: housing expenditures of American families are far too diverse to be explained by simple principles.... Choice of housing (which necessarily means choice of community and neighborhood) is a response to an extremely complex set of economic, social, and psychological impulses." p.139.

"A source of constant perplexity throughout our analysis was the relatively small share of total variation in housing expenditures that could be explained by seemingly important economic and social variables.... Income, the most significant factor, accounts on the average for only 10 percent of the total variance in housing expenditures. Tenure, the next most important variable, accounts for about 6.6 percent of the residual variation. The influence of other variables is even smaller." p.152.

One reason for these findings is the "long overdue recognition of an innately wide range in the housing arrangements of seemingly identical types of families." p.152.

1967

Donnison, D.V. (1967) *The Government of Housing*, Penguin Books.

"What determines the proportion of their incomes that people are prepared to spend on housing? The problems posed by interpersonal, let alone international, comparisons of housing expenditures defy precision." p.65. ... "Any averaging of these figures presents almost insoluble technical problems and is liable to conceal the most important features of the situation." p.66.

"These conclusions prompt the question: 'What proportion of their income should people devote to the costs of their housing?' -- a popular but ineptly posed conundrum for which some correspondingly inept solutions have been proposed. Its very phrasing overshadows any discussion with unspoken but weighty prejudices about the sanctity of the home and the virtues of paying rent which generate more heat than light. People seldom ask: 'What proportion of the family's income *should* be devoted to food? ...to clothing? ...to medical care?' although these commodities are at least as important as housing. They know very well that the needs of different families vary and no generally valid answer could be given to such a silly question. It makes better sense to ask what proportion of the *national* income should be devoted to capital investment in housing or to 'occupation costs' -- provided the latter includes all the costs directly and unavoidably associated with the occupation of a house. But the outline given in the previous chapter of the way in which needs change at different phases of people's 'housing histories', makes it clear that the nation's expenditure on housing is likely to vary from time to time, for varying proportions of households will at different times be found in any particular phase. For the individual households any reckoning based on the income of the household or its principal earner is likely to be misleading." p.255-256.

"Those who persist in asserting that people 'should' spend a particular proportion of their incomes on rent will either prevent the appreciable growth in housing expenditure and investment this country should now be capable of, by restricting rent-income ratios to a level designed to protect the poorer and larger families, or they will bring about a growth in housing costs that will inflict severe hardship on some people. They should instead be asking how to place the burden of an increase in housing expenditure upon those best able to bear it; and how best to help those who are already paying so much for their housing that they have difficulty in keeping all members of their family properly fed and clothed. The problem is not an easy one to solve, but we have not allowed it to defeat progress in the fields of education and medical care and it should not prove insoluble in the field of housing." p.257.

1976

Baer, William C. (1976) "The Evolution of Housing Indicators and Housing Standards: Some Lessons for the Future," *Public Policy*, 24(3), Summer, 361-3/93.

"Given the variety of circumstances facing different households, rules of thumb about the percent of income to be devoted to housing can be extremely misleading in individual cases and therefore in aggregate data as well." p.383. "... a maximum rent-income ratio for one kind of household may not be appropriate for another, and that imposing the same standard for all households is unrealistic." p.384.

"Whereas simple ratios of housing cost to income seem sufficient as indicators, a sophisticated standard needs to incorporate considerations of age of the head of household and household size before an appropriate ratio standard should be applied. Otherwise appropriate variations in household behaviour will be ignored, all circumstances will be mistakenly judged by a single criterion, and estimates of deprivation or need will be in considerable error." p.386-387.

1977

Lane, Terry S. (1977) ***What Families Spend for Housing -- the Origins and Uses of the "Rules of Thumb."*** Cambridge, MA: Abt Associates (for the U.S. Department of Housing and Urban Development).

"With the passage of time, it has become apparent that the rule is both inaccurate and inappropriately used. It does not describe very well the actual relationship between shelter expenditures and income for most households, and it is not able to meet the multiple goals of mortgage lenders and housing policy planners." p.iv.

"Several studies have shown that there is a relatively low correlation between income and the amount that families spend for shelter. In addition, families at the same income level spend widely varying amounts for housing." p.iv.

"Although lenders and rental agents use the rule of thumb to identify prospective borrowers and tenants who might not meet their monthly payments, there is limited evidence to support this practice. Defaults and foreclosures are most often associated with unstable incomes or occupations and unexpected family crises such as unemployment, exceptional medical bills or divorce." p.iv-v.

"It is certainly probable that for any given family, some ratio of housing expenditures to income will be too burdensome, but it is not clear that the rule of thumb accurately approximates that cutoff point." p.v.

"The use of the rule of thumb is, at present, justified primarily by tradition. What constitutes a 'normal' allocation of income for shelter is not well understood, and even less

is known about the maximum housing expenditure a family can make without jeopardizing its ability to purchase other necessities." p.v.

Conclusion: "It is clear that the rule of thumb does not adequately describe the ratio of shelter expenditures to family income. It is also an inappropriate guideline for practices in lending institutions, rental agencies and federal housing programs." p.55.

1983

Miron, J.R. and J.B. Cullingworth (1983) ***Rent Control: Impacts on Income Distribution, Affordability and Security of Tenure***, Toronto: University of Toronto, Centre for Urban and Community Studies.

"Rent-to-income ratios are the most commonly used measure of affordability. However, they present numerous difficulties, quite apart from the fact that whatever actual ratio is chosen, it is bound to be arbitrary." p.93.

A household with a housing problem "is operationally defined to be one which spends 25 per cent or more of its income on rent. The choice of a 25 per cent threshold is arbitrary and not unimportant; the higher the threshold chosen, the lower the number of 'problem households'. Difficulties with this definition arise again and again in this essay. They indicate the need for a better definition of the affordability problem...". p.104.

1985

Fallis, George (1985) ***Housing Economics***, Toronto: Butterworths.

"If a household spends more than twenty-five per cent of its income on housing, it is said to have an 'affordability' problem.... [T]he housing expenditure to income ratio should not be used to define housing problems because it is really a proxy measure for whether a household consumes all of life's necessities, and a poor proxy at that." (p.20)

"The housing affordability concept is a proxy. It is a proxy for the values that food, clothing, and so on are merit goods. But the affordability concept -- the 25-percent rule -- is a poor proxy for several reasons. The percentage should fall with income. The rule should change as relative prices change. It should recognize that people's preferences differ, that in urban areas the percentage of income will vary depending on how people trade off commuting costs and housing consumption, and that over the life cycle the percentage will vary. Use of the 25-percent rule shows none of these variations." pp.144-145.

1990

Stone, Michael E. (1990) ***One-Third of a Nation: A New Look at Housing Affordability in America***, Washington, D.C.: Economic Policy Institute.

"The conventional view of the housing affordability problem is based upon a certain notion of how much people reasonably can be expected to pay -- namely, the famous 25 percent of income rule of thumb.... Any attempt to reduce affordability of housing to a single percentage of income -- no matter how low or high -- simply does not correspond to the reality of fundamental and obvious differences among households. Even attempts to establish a few prototypical groups and have somewhat different percentages for each, or set up narrow ranges in order to recognize some differences, fail to grapple in a logically sound way with the range of variation in what households really can afford to pay." pp.50-51.

1992

Kearns, Ade (1992) "Affordability for housing association tenants: a key issue for British social housing policy." *Journal of Social Policy*, 21(4), Oct., 525-49.

"The affordability debate has become one primarily concerned with defining a single ratio of rent to income as an affordability norm which can be contested in principle and in practice. The use of a single ratio is far too crude to cope with different household types on different income levels, who have different expenditure requirements. The ratio of rent of income, considered in abstraction, tells us nothing about the impact of housing costs on a households' ability to fund other expenditures. A household spending a designated percentage of its income on housing, in line with a central policy or stipulation, may nonetheless be suffering welfare hardships if the housing costs norm has not been defined in a way which is sensitive to that household's pattern of spending needs." pp. 540-541.

1993

Linneman, Peter D. & Issac F. Megbolugbe (1992) "Housing affordability: Myth or reality?" *Urban Studies*, 29(3/4), 369-392.

"Talk of housing affordability is plentiful, but a precise definition of housing affordability is at best ambiguous. The conventional public policy indicator of housing affordability in the US is the percentage of income spent on housing. Housing expenditures that exceed 30 per cent of household income have historically been viewed as an indicator

of a housing affordability problem.... These conventional measures of housing affordability present many problems." p.371

- they do not control for changes in the quality of the housing stock over time.
- they do not control for the expected impacts of appreciation on housing cost increases.
- they fail to control for locational variations in median income.
- they fail to discern cases of high price-to-income ratios or expenditure shares that result simply from changing tastes for housing amenities.
- debate has centred around what measure of income should be used (transitory or permanent).
- it is not clear why the housing cost burden should be expected to be constant over time (household life-cycle and income patterns). p. 372.

"A fuller definition of income would also include non-cash income such as housing vouchers, certificates and food stamps as well as unreported income (e.g., from criminal activities)." p.379.

"Another issue is the impact on housing affordability of the growing inequality in the income distribution and the need to stop basing the assessment of housing affordability on median household income trends.... the continued affordability problems of first-time buyers and low- and moderate-income renters have been a direct result of the increasing inequality in income distribution." p.378.

APPENDIX D

Survey of Corporations Owning or Managing Large Numbers of Rental Apartments in Metro Toronto: Requirement for Last Month's Rent Deposit

by J.David Hulchanski and Eric Weir

June 1992

This appendix provides a copy of the report of findings of a survey of private sector corporations owning or managing large numbers of rental housing units in Metropolitan Toronto.

Though the survey was carried out independent of this report on minimum income criteria -- as part of a research effort on a different issue -- the findings provide an indication of the extent to which some large firms use income criteria in the tenant selection process as well as an indication of the extent to which some have a policy of not renting to persons in receipt of social assistance.

RESEARCH PROJECT -- **Report of Findings** **10 June 1992**

Survey of Corporations Owning or Managing Large Numbers of Rental Apartments in Metro Toronto: Requirement for Last Month's Rent Deposit

Principal Investigator: Professor J. David Hulchanski, Ph.D., MCIP
Research Assistant: Eric Weir, M.S.W.

Research Question: How many corporations owning large numbers of private sector rental apartments in Metropolitan Toronto, with units affordable to people on social assistance, require advance payment of the last month's rent, and of those who do, how many would consider waiving this requirement?

Rationale: The Municipality of Metropolitan Toronto, in its most recent budget, adopted a new policy of refusing to provide social assistance recipients money for advance payment of the last month's rent in those cases where it is required. This survey was carried out to supplement a previous survey of individual apartments for rent based on a random sample from classified ads in the major Toronto daily newspapers. See: *Survey of Apartments for Rent in Metro Toronto: Requirement for Last Month's Rent Deposit* (May 1992).

Method: This study used non-random purposive sampling with the aim of identifying and interviewing the owners or managers of as large a number of rental units as possible. A telephone survey was carried out during the first week of June 1992 of executives of private sector corporations that either own or manage 100 or more rental apartment units in Metro Toronto (see below for questions asked). Data was compiled only for those corporations with a substantial percentage of their units within a defined rent ceiling considered affordable to social assistance recipients (see below for explanation of the rent ceiling).

In total, representatives of 27 corporations meeting these specifications participated in the telephone interview. Together these 27 corporations own or manage a total of approximately 61,000 units in Metropolitan Toronto. Of this total approximately 49,600 units (82%) are within the rent ceiling. This is a significant sample of Metro Toronto's rental housing stock of approximately 400,000 units (1986 census).

Findings:

- ***All 27 corporations reported that they require payment of last month's rent in advance.***

- ***Only two of the 27 corporations reported that they sometimes make exceptions for persons in receipt of social assistance. These two own or manage a total of approximately 2,050 units within the income ceiling. This is 4% of the total sample of "affordable" units in this survey.***

- ***Six of the 27 corporations reported that they do not rent to persons on social assistance. These six own or manage a total of approximately 27,860 units within the income ceiling. This is 56% of the total sample of "affordable" units in this survey.***

When asked "do you make exceptions for people in receipt of social assistance," twenty (74%) reported that they do not make any exceptions, two (7%) reported that they do, and five (19%) reported that they do not have a clear policy. The twenty corporations which do not make any exceptions own or manage approximately 43,000 units within the income ceiling. This is 87% of the total sample of "affordable" units in this survey.

When asked "are you willing to rent at all to people receiving social assistance," six (22%) reported that they did not rent to people receiving social assistance. One refused to answer, one did not know, and 19 (70%) reported that they do rent to people receiving social assistance. The six corporations that do not rent to people in receipt of social assistance own or manage a total of approximately 27,860 units within the income ceiling. This is 56% of the total sample of "affordable" units in this survey.

When asked "are there income requirements for your units," nineteen (70%) reported that there are, six reported that there not any (22%), and two did not respond. Of the nineteen corporations which do have income requirements, fourteen answered the follow-up question: "What is the rent to income ratio that you require?" All but two are between 25% and 33%. The other two are 35% and 40%. Both the mean (the average) and the median rent to income ratio is 31%.

The vacancy rate for the units represented by the 24 corporations who responded to this question is 3.4% (1,728 vacancies out of 51,189 units).

When asked "do you usually advertise in any of the Toronto daily newspapers" 20 of the 27 corporations reported that they use classified ads. This question was asked based on the assumption that people on social assistance looking for a place to live would use the daily newspapers. Of the six

corporations which reported that they do not rent to persons in receipt of social assistance, all six are part of the twenty corporations which advertise in the daily newspapers.

The Sample

An attempt was made to obtain as comprehensive a list as possible of corporations owning or managing the largest numbers of units. The two sources most likely to have such a list, the Fair Rental Policy Organization of Ontario and the Ontario Regional Office of the Canada Mortgage and Housing Corporation, have a policy of not publicly releasing their lists. The Urban Development Institute, Metro Toronto Legal Services, and the Federation of Metro Tenants Associations were also contacted for assistance. The major source for the list came for the *Toronto Yellow Pages* (the "apartments" and "real estate management" headings were most helpful). A total list of 244 corporations was compiled. In conducting the non-random telephone survey, follow-up calls were made one or more times in cases where the corporation was known to operate in the private residential rental market (as opposed to management of other forms of real estate) and where the name of an appropriate contact person was known.

A total of 244 telephone calls were made on June 3, 4 and 5, with the following results: 59 (24%) no answer; 22 (9%) phone no longer in service; 72 (30%) not in the private residential rental market; 4 (1%) not in Metro Toronto; 87 (36%) a name of the appropriate contact person in the firm was successfully obtained.

Of the 87 cases in which a name of an appropriate contact person was successfully obtained, the telephone calls produced the following results: 30 (35%) contact person not available after repeated attempts; 22 (25%) contact person refused to participate in the survey; 8 (9%) corporation owned or managed less than 100 units; 27 (31%) participated in the survey.

Questions asked:

1. Does your company own or manage residential *rental* apartments?

2. I'm a researcher at the University of Toronto conducting a study relating to the requirement for paying last month's rent in advance. I'm collecting information to help determine what percentage of rental units in Metro require advance payment of last month's rent. Any information you provide will be kept confidential -- that is, your firm's name will not be linked to any specific data.

3. a) Approximately how many rental units in Metro Toronto does your company own or manage?
   b) Approximately how many of these units become available in a given month?
   c) Do you usually advertise in any of the Toronto daily newspapers?

4. Approximately what percentage of your 1-bedroom units rent for $865 per month or less?

5. Do you require last months' rent in advance?

Metro Social Services no longer provides the last month's rent deposit for people receiving social assistance where it is required.

6. Do you make exceptions for people in receipt of social assistance?

7. a) Are you willing to rent at all to people receiving social assistance?
   b) Are there income requirements for your units?
   c) What is the rent to income ratio that you require?

Rent Ceilings:

So as to simplify the telephone interview, only one unit type, the one bedroom unit, was used as an indicator of the approximate number of units affordable to social assistance recipients. The $865 rent for the one bedroom unit used as the rent ceiling in this survey is the same figure used in the first survey, *Survey of Apartments for Rent in Metro Toronto: Requirement for Last Month's Rent Deposit* (May 1992). The rent ceilings in the first survey are based on a maximum housing expenditure of 65% of income by family composition (number of adults and dependents), derived from a Metro Toronto Social Services table providing average maximum rents by family composition for social assistance recipients. The rent ceilings for each apartment size are: rooms or bachelor apartments, $420; one bedroom, $865; two bedroom, $1,000; three bedroom, $1,248; and four bedroom, $1441.

Participants in the Survey:

A representative of the following 27 corporations participated in this survey: Abinger Investment Properties; Alpenrose Holdings; Andrews and Thombar Property Mgmt.; Bellmont Property Mgmt.; Brown Management Services; Burton-Lesbury Holdings; Chez Belle; Curtis Mgmt; Davis Property Mgmt.; Diamond Harry and AC; Fidelity Property Mgmt.; Frastell Property Mgmt.; Greenwin Property Mgmt.; H and R Developments; Highmark Properties; Investors Property Services; O'Shanter Development Corp.; Park Property Mgmt.; Robinwood Mgmt. Corp.; SBU Management Corp.; Spelch FR; Swiss Cdn. Mgmt. Co.; Vesta Mgmt.; Wilson Property Mgmt.; Winzen Property Mgmt.; Yetnikoff Trudeau Levi Cooper and McGraw; and Zeidner Investments.

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